

Nation's Business

A USEFUL LOOK AHEAD

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JUNE 1958

46/6

MARCUS NADLER TELLS:

When
and how
upturn
will come



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Defense need: Freedom to manage **PAGE 36**

Wage push feeds recession

What you can do about st

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Good telephone earnings do not mean high rates

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Today, more than ever, it is evident that the best service at the lowest cost in the long run depends on good earnings.

To a considerable extent the public, and we are afraid many who should know better, have come to think that low earnings mean low rates and good earnings mean high rates.

Yet few people have the idea that the lowest earning soap company makes the best and cheapest soap.

**The best service
at the lowest cost
in the long run
depends on good earnings**

Or the lowest earning meat packer makes the best and cheapest hams.

Or that the lowest earning company in any line makes the best and cheapest products and renders the best service.



It doesn't apply to the telephone company either.

There are many ways in which telephone users benefit in both the cost and quality of service through good earnings for the telephone company.

BELL TELEPHONE SYSTEM



Nation's Business

June 1958 Vol. 46 No. 6

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Washington, D.C.

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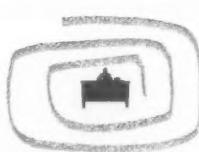
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At the O'Rielly Motor Co. truck center in Tucson, Arizona, a spacious—sheltered—outdoor display area was created by simply extending the Low-Profile Butler roof. The wide, column-free interior makes it easy to move trucks in and out for service. Insulated, this building is economical to air-condition.



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But, how can such an attractive, spacious building be economical to build? It's simple, by using

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management's WASHINGTON LETTER

► **STRAW IN THE WIND:** Working-level economists in Washington--names you seldom hear--believe bottom is past, business upturn taking shape.

Talk's not strong, still rather quiet, cautious--but growing.

They point out:

Confidence is spreading.

This could be your best signal of upturn in your area.

Are you optimistic? Are your business associates? Do you see new growth of confidence where you do business?

► **HERE'S WHY CONFIDENCE** is spreading:

People have money.

They're saving it--putting it in banks, buying bonds, paying off debts, making room for credit growth.

And they're spending it.

Look at these trends:

Personal disposable income--what people have to spend and save--is down only 1.3 per cent from peak last fall.

From year ago it's up \$3.2 billion.

► **ASK YOUR BANKER** about total deposits in your area.

He'll probably tell you they're up.

Example:

For 541 mutual savings banks, survey shows deposits are highest ever.

Total's up to \$32.4 billion.

Year ago it was \$30.4 billion, up from \$28.7 billion two years ago.

► **TO GAIN A DOLLAR** in real buying power average worker has to earn another dollar to pay Uncle Sam.

New data on earnings reveal this.

Here's what study shows:

Gross weekly earnings are up about \$28 a week for average worker in 10 years.

But his buying power is up only \$7.50 per week.

Inflation gobbles up \$12.50 of higher pay's purchasing power, and Uncle Sam grabs another \$8 a week.

Look at data for 20 year period--same trends show up.

Total pay's up about \$57 a week.

But worker's buying power is up only \$14 a week.

Inflation swallows up \$28.50.

Higher taxes take nearly \$14.50.

► **ACTION ON TAXES** is coming for sure this month.

Unless extended, corporate rate will fall automatically from 52 to 50 per cent at month's end.

Wartime excise taxes also expire.

So Congress will have to decide soon if higher rates are to be continued--or whether lower taxes will be allowed.

Outlook: Probable cuts in some excise taxes, some depreciation changes possible.

Less likely is change for personal incomes.

► **ISSUES IMPORTANT** to businessmen will get hotter in Congress this month and next.

Adjournment's expected by Aug. 1.

Here's outlook for coming debates:

Trade agreements--law expires this month; look for year extension.

Union racketeering--Senate committee will report soon; this could open full-scale floor scrap.

Foreign aid spending--action, debate by Senate this month; probable approval of about \$3 billion.

Appropriations--defense spending will top the list, involves most money.

Pentagon reorganization fight will intensify.

► **CONSUMERS ARE BUYING** at annual rate equal to peak period last year.

Rate dipped earlier this year to 0.9 per cent below peak.

Now rate averages \$4.3 billion higher than year ago.

Consumer spending trends show:

Sales climbing, outlook better.

Durable goods are up 3 per cent for month (seasonally adjusted).

Second quarter is likely to surpass first quarter.

Nondurable goods are up 1.5 per cent.

Compared to year ago, durable goods total is down more than \$4 billion.

But nondurables are up \$4.2 billion, services up \$4.6 billion.

► **YOU CAN EXPECT** new orders to pick up soon.

New data in Washington show inventory liquidation reached \$9 billion annual rate in first quarter, may reach \$6 bil-

lion this quarter. Clearing shelves means production index will soon turn up again.

►WHAT'S NEEDED to boost sales?

Here's one view, by Don G. Mitchell, head of Sylvania Electric Products:

"Go out and sell harder."

He thinks salesmen can make 20 per cent more calls, give sales needed boost.

►THERE'S ROOM FOR CREDIT expansion.

Newest data show consumers are paying off debt, reducing total outstanding by \$180 million.

Credit specialists in Washington say you can expect more shrinkage this year.

One economist wouldn't be surprised to see year's total down from last year.

He explains meaning for business:

Consumers are showing caution, paying up what they owe, responding to business downturn talk.

What's needed, he says, is more upturn talk, more confidence.

►AMERICANS ARE STEPPING UP buying of government bonds, holding on to bonds they already have.

Total outstanding's up more than \$300 million so far this year.

Sales are running 11 per cent ahead of this time last year.

Redemptions are 9 per cent lower.

Look for new data out early this month for new indications of trends.

►WHAT'S INDUSTRY thinking on business prospects?

Answer is more optimistic than you might imagine.

Survey of 64 national, regional, local trade associations by Association Service Department of U. S. Chamber shows:

Most responding say business is good.

Slightly fewer say it's fair.

Smallest number say business is bad, declining.

Survey shows numerous associations are pushing sales campaigns, industry-wide promotion to revive high level of consumer buying. There'll be more of this in weeks ahead.

►MANY SURVEY RESPONDENTS blame gloom

talk for much of business drop.

Here are some typical comments:

California Fertilizer Assn.: "We look for the best year in our history in '58."

Alabama Liquefied Petroleum Gas Association: "Demand for our product continues to increase. With promotion and less talk about recession, business will be extremely good."

Motor and Equipment Manufacturers Association: "Business insolvencies among our members' wholesale customers so far this year are limited to four.

"At this time last year we had counted 17 failures resulting in losses to member creditors."

National Clay Pipe Manufacturers, Inc.: "Some of our members state that business booked for future delivery is 30 per cent ahead of 1957."

In food industry, estimated \$635 million will be spent this year in construction of 2,000 new supermarkets and remodeling of 1,700 old ones.

Burlington, N. C., Chamber of Commerce: "We have...come to the conclusion that recession in our area is more talk than financial."

►BUSINESS WILL GET more push from government spending.

Contract placement's being stepped up. That'll add to economy later on.

What counts now is current spending, government purchases of goods, services.

Here's what national government is spending:

Total purchases of goods, services rose to \$51.1 billion peak (annual rate) year ago--in second quarter.

Then rate slipped to \$50.6 billion, fell off to \$49.7 billion annual rate by year's end.

So far this year, rate's \$300 million below year ago rate.

This is federal spending for goods and services.

Add state and local purchases:

Annual rate's now highest ever, up \$3 billion from year ago.

Add all federal, state, local buying and you'll see this trend:

Total's \$2.4 billion higher than year ago.

Outlook:

management's WASHINGTON LETTER

Upward trend will go on with end not in sight.

Specialists believe annual rate for federal purchases of goods and services may rise to \$52 billion by year's end.

Bigger rise, mostly in defense payments, will come next year.

►FALLING INTEREST rates will benefit taxpayers--indirectly.

In year ahead, interest on federal debt previously was estimated at \$7.9 billion.

Now economists, budget managers believe total may not exceed \$7.5 billion.

This will save more than \$400 million for taxpayers.

►CLOUD ON ECONOMIC horizon is capital spending for plant and equipment.

Trend's downward.

Specialists say you can expect rate of spending to decline more in months ahead.

Outlook: From \$32 billion annual rate now, look for spending to slide off to \$28 billion rate by year's end.

Slipping profits, excess production capacity are behind this trend.

Profit improvement can signal new upswing in plant investment.

So could new sales surge--prospects for profits ahead.

►TAX LIBERATION DAY is coming.

Mark Monday, July 7.

That's theoretical day when corporations will have earned enough to pay federal taxes.

Earnings for remainder of year will be divided between state, local governments, business expansion to make new jobs, paying off debt, interest on debt, and--finally--shareholders.

►CONGRESSMEN ARE LOOKING for something to investigate.

Example: Executive agency staff man has been asked by committee staff man to "cooperate for a friendly investigation" of agency he works for.

Committee's now looking elsewhere.

Investigation's purpose:

Political. Elections are coming.

►LOOK FOR NEW TALK about conflict of

interest laws to bob up soon.

But instead of relaxing laws, Congress may tighten up.

Some congressmen are beginning to grumble about retired military men going into high business jobs.

Most make valuable contribution in new jobs but what worries Congress is small number who are employed because of whom they know rather than what they know.

Evidence of wrongdoing?

No--not yet.

Staff's looking.

►REMEMBER THE DAYS when you had to wait months to buy a new car?

That's happening now--for one popular small foreign car.

Waiting list is getting longer.

In Washington you can deposit \$100, wait 14 months for delivery.

Year ago you'd have waited 12 months or less.

Number being sold's about the same.

Same's not true of all foreign cars.

Dealer for another make promises to have you rolling in 15 minutes.

►IF YOU SELL ABROAD, your future sales could depend on chemical karo of a bug.

Sound fantastic?

It's not.

Consider malaria. It's caused by mosquito, has killed or incapacitated more people than all wars.

When it doesn't kill, it leaves its victims suffering from lassitude, inertia, lowered activity.

Once malaria held America's southern states in its grip.

Now grip is broken.

Experts say it's more than coincidence that South's economy is growing faster than ever.

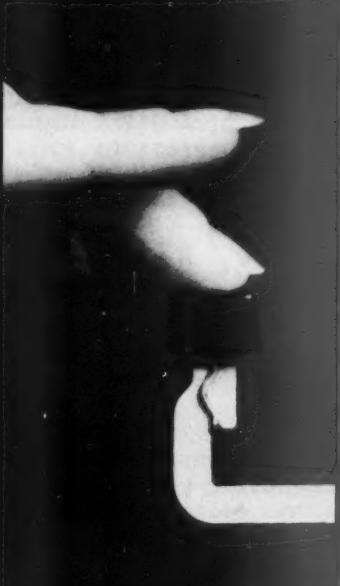
Eighty-eight nations currently are waging fight against malaria-spreading mosquito.

U. S. tax dollars will underwrite about 20 per cent of \$520 million world will spend in this fight in coming 10 years.

Fever fighters' biggest worry:

After several years of effective DDT control, some strains of malaria mosquitoes are developing resistance to the chemical.

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Letters from businessmen

Cause and effect

Your "Tax Squeeze Chokes Progress," in the April issue, ought to be coupled with *Business Week's* editorial "Needed: Economic Policy... For the Long Run," and then made the keynote of the most concerted and extensive legislative campaign ever put forth by American business.

Crawford H. Greenewalt [in "Tax Squeeze Chokes Progress"] has set forth the cause—that steeply graduated U. S. income tax rates are stifling American management and capital incentives; and *Business Week* has cited the result—that the U. S. is about to yield first place to the Soviet Union in rate of economic growth.

Both articles are factual, self-contained and complete. Their reasoning and conclusions are not even slightly arguable. They point out that under the profit system, the primary motivation and underlying stimulus is profits—not glory, applause, satisfaction, power, affection, obedience or even security, but profits. And individual economic effort and risk, therefore, is collectively inspired by the opportunity and prospect of gaining spendable compensation in proportion to the effort expended or the risk assumed. Precipitously graduated income tax rates dilute the prospects of retainable profits, thus stifling the primary motivating force. The result: less personal effort, less risk-investing, and thus a slowdown in rate of economic growth.

The American manager has been quick to seek tax concessions in behalf of the business he serves. He contributes time and money to the efforts of business organizations to seek more equitable taxation of business; and he appears before congressional committees to plead his employer's case. However, he rarely pleads his own case—or that of American management generally—that high personal surtax rates are damaging to the incentive of management. Unless relief is granted, there simply won't be enough managers to run American industry in the next decade.

It seems to me that positive action joined in by all American business

management acting in concert could lift the veil before Congress' eyes and bring about the desired result. I'd like to see such a campaign organized, and would be quite willing to join in it.

JAMES J. MAHON, JR.
Resident Partner,
Lybrand, Ross Bros. & Montgomery,
Philadelphia, Pa.

Higher profits

I have read with much interest the article "How to Sell for Higher Profits." I think this article is excellent and I would like to give a copy to each of the salesmen working under my jurisdiction. Would you kindly send 25 copies?

W. C. COLLYER
Manager,
Ingersoll-Rand Company,
San Francisco, Calif.

Stand by principles

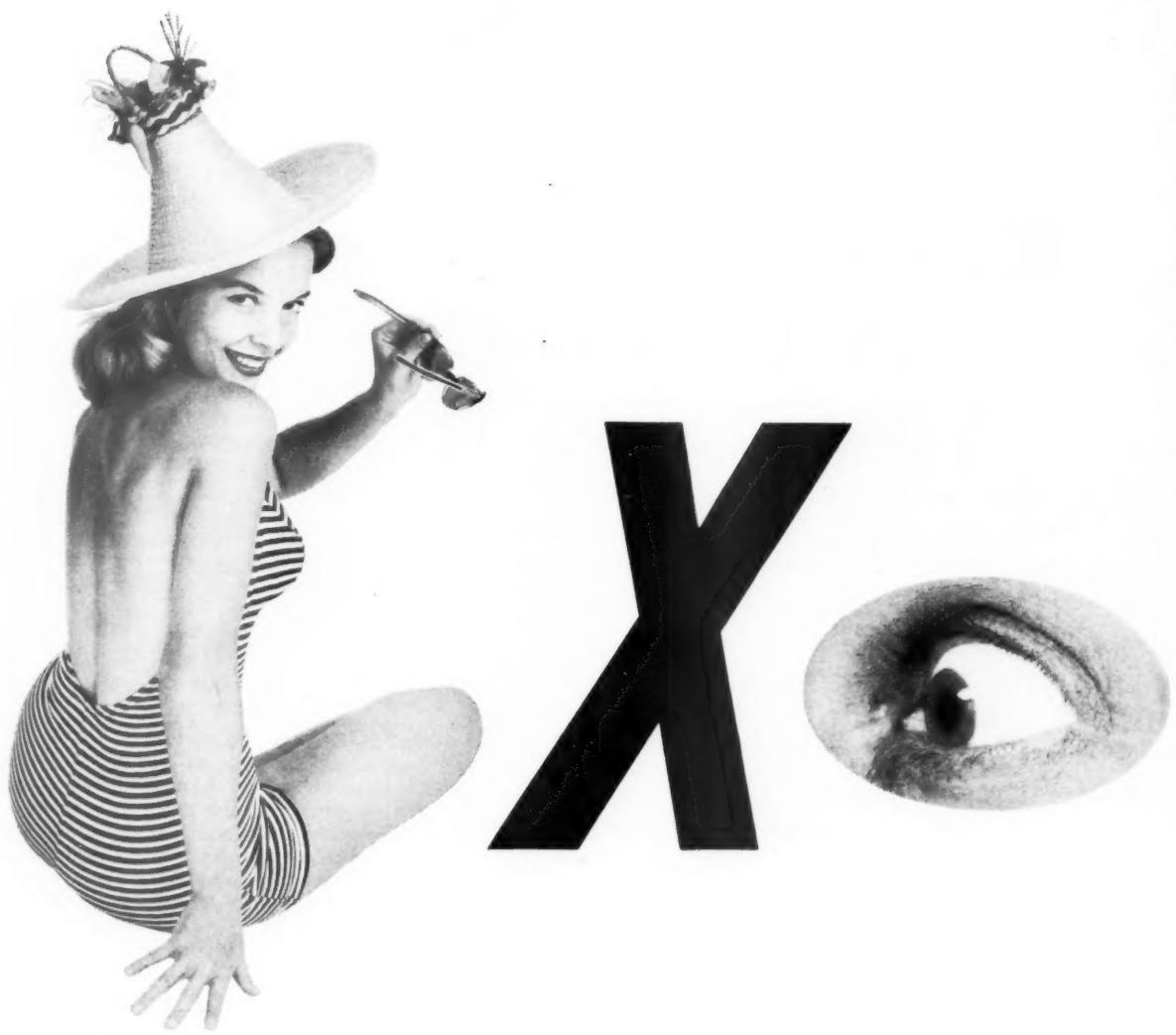
The gravity of the economic and political situation would seem to demand that influential people indulge in a soul-searching analysis of actions and ideas, with particular emphasis on their morality and rightness. It is not too difficult for a sincere, mature mind to conclude that economic laws cannot be legislated any more successfully than can the laws of physics and chemistry. Likewise, it seems elementary that a knowledge of correct principles is useless unless it is applied.

The American economy and culture are built on the principle of freedom and individual responsibility. That fact is well known by all. But of what value is the knowledge as long as political, business, and thought leaders continue to say, "Now let's be practical about this?"

TOM SMILEY
President,
Smiley Distributors, Inc.,
Raleigh, N.C.

Sins and virtues

After reading "How to Avoid Managers' Seven Deadly Sins," which I thought to be a fine piece, I could not resist the challenge to compose a companion list of managers' seven cardinal virtues. For me they would be: empathy, magnanimity, integrity, loyalty, curiosity, prudence, cheerfulness. Let us hope that we all have met our share of those managers with the seven sins, and



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that our share of those with the virtues is forever bountiful.

GLENN RALSTON
Valdosta, Ga.

I was very much impressed by "Managers' Seven Deadly Sins." I would like two copies.

JAN AEGERTER
Holland Furnace Company,
Indianapolis, Ind.

We would like to receive two copies. Thanks for making these fine articles available.

BEN R. CARROLL
Assistant Cashier,
The First National Bank,
Fort Worth, Tex.

This article impressed us so much that we plan to distribute it to all our managers.

A. WILLIAM HIGGINS
General Drafting Co., Inc.,
Convent Station, N.J.

I would appreciate receiving these (15) reprints as soon as possible as the article is an excellent one.

R. C. TYO
Vice President and
General Manager,
The Porter-Cable Machine Co.,
Syracuse, N.Y.
►1,073 other requests for 17,223 reprints
thus far.

Bargain day

Here I go again getting the very best bargains obtainable in the management reading field. Why, oh why, won't all our management people read and try to practice what you present so clearly. My check is enclosed. Please send the items listed ["Help Your Brain Work for You," and eight other articles].

DAVID W. HILL
Hercules Powder Company,
Parlin, N.J.

Cut waste

Enclosed is a check to cover cost of mailing 15 reprints of "Writing Skills Cut Management Waste." We are anxious to have these as soon as possible. This is an excellent article.

K. R. STEPHENSON
Armstrong Cork Company,
Lancaster, Pa.

No security

We are very much impressed with the article appearing on page 106 of the current issue entitled "Here's the Road to Absolute Security." We are wondering if reprints would be available.

V. H. BRINK
President,
Binghamton Industrial Supply Co., Inc.,
Binghamton, N.Y.

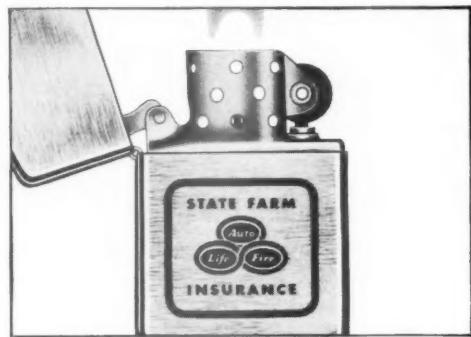
Edged remark

What Walter Reuther appears to want is not profit-sharing but profit-shearing.

JAMES H. KENNEDY
Director of Communications,
Bruce Payne & Associates,
Westport, Conn.

How the Zippo lighter can work for your business 24 hours a day

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Zippo Manufacturing Company, Bradford, Pa. In Canada, Zippo Manufacturing Company, Canada Ltd., Niagara Falls, Ontario.

Zippo Manufacturing Company
Dept. NB 206, Bradford, Pa.

Gentlemen: Please furnish me with complete information on Zippo lighters and your special design service.

Name _____ Position _____

Firm _____

Address _____





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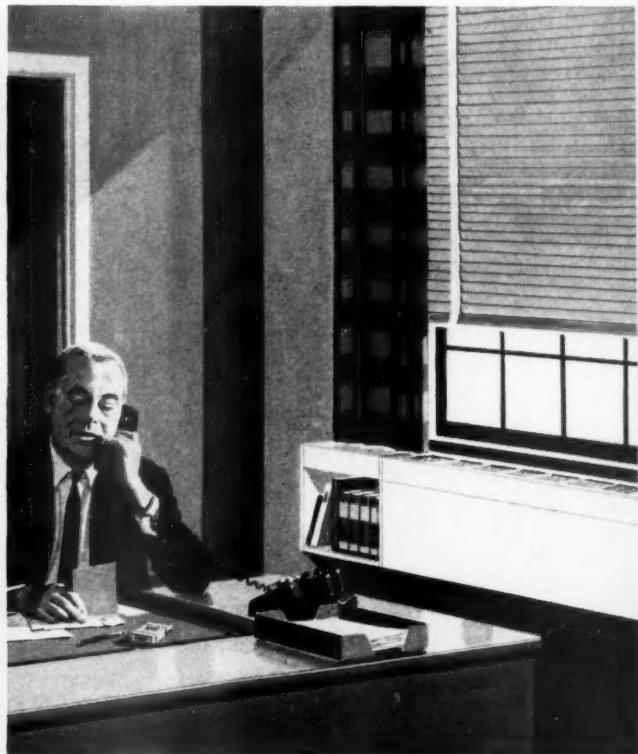
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WATCH THIS ISSUE

Outlook for defense overhaul

SENATE ACTION this month will decide substantially how effective America's reorganization for defense will be.

Hearings by the Senate Armed Services Committee, and later floor debate, could produce more sweeping defense reorganization legislation than any envisioned by the House of Representatives.

Under pressure from swift scientific developments, and uneasiness over Russian intentions, Congress is almost certain to give speedy approval to many of the changes sought by President Eisenhower.

The bill brought out by the House Armed Services Committee contained much that the President asked for, but also left restrictions on the authority of the Secretary of Defense that the Administration hopes will be removed.

These include the Secretary's power to transfer service functions, and the somewhat ambiguous language concerning his relationship with the Secretaries of the military departments, and the control of those departments.

In his plan, the President basically is trying to provide an up-to-date defense organization that will function quickly, effectively, efficiently and economically in a world where the possibility of instantaneous war and devastation creates problems too urgent and complex for existing machinery to handle.

Opposition arises chiefly because some feel that the recommendations are too broad, that they would concentrate too much power in the Secretary of Defense, that a Prussian-type general staff would be created, that the traditional and historical military services would lose their identities.

The question of what will happen to the Army, the Navy, the Air Force and the Marines produces the most emotionally charged argument. In spite of the President's emphatic statement that he has "neither the intent nor the desire to merge or abolish the traditional services," some military and congressional leaders are uneasy about the future of those separate branches.

Gen. Randolph McC. Pate, Marine Commandant, for example, told the House Committee that the Administration's bill presents a potential threat to the status and the traditional mission of the Marine Corps. The Chiefs of Staff of the Army and the Air Force support the President's recommendations. The Navy Chief of Staff opposed them.

The Administration's plan and the House bill would create unified operational commands organized, with the required combinations of seamen, airmen and soldiers, plus modern weapons and equipment, to do specific military tasks—in military language, "missions and force levels conforming to national objectives."

The operational commands would be in the Department of Defense, but separate from the military departments. Each commander, whether a Naval, Air Force, Army or Marine officer, would have unquestioned authority over all units of his command, and orders would come directly from the Commander in Chief and Secretary of Defense. This would eliminate the military departments from the chain of operational command, the present form of which the President calls cumbersome and unreliable in time of peace and not usable in time of war.

The job of the departments would be to manage the administrative, training, and logistics functions of the Defense Department. It is this apparent relegation to a housekeeping function that seems to provide some source of dissatisfaction.

Congress' current look at defense organization follows several critical examinations made since enactment of the National Security Act of 1947. President Eisenhower described the National Military Establishment set up by that legislation as a loose, unmanageable aggregation of sovereign military units.

In 1949 the National Military Establishment was replaced by an executive Department of Defense, and in 1953 additional changes to the act moved the unifying process forward a little.

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DEFENSE OVERHAUL

continued

istration idea feel the proposals for sounder management of military affairs take a substantial further step forward. The President wants effective unification to get rid of waste and inefficiency, caused primarily by duplication in research on weapons and equipment, and to stop wasteful interservice rivalry.

He would give the Secretary of Defense the authority he believes the Secretary needs to handle the duties for which he is held accountable. Opponents, however, are wary of centering so much of the power represented by a \$40 billion annual Defense budget in the hands of one man. Today's pressures, the President feels, make it mandatory to have complete unity in our strategic planning and basic operational direction, and the initiative for this planning and direction rests with the Secretary of Defense and his advisers, the Joint Chiefs of Staff.

"Genuine unity," President Eisenhower says, "is indispensable at this starting point. No amount of subsequent coordination can eliminate duplication or doctrinal conflicts which are intruded into the first shaping of military programs."

How much the mission and make-up of the Joint Chiefs of Staff will be altered is another area of controversy. The President's idea of enlarging it and freeing its members from their departmental administrative duties so that they can better function as planners and advisers to the Secretary of Defense has drawn critical comment.

The enlarged general staff, however, would be made up of officers from all services who would rotate from the staff to field duty. General of the Army Omar N. Bradley (retired) told the House committee he saw "no danger of developing a so-called general staff complex."

The question of Defense Department funds is a major concern of Congress, but the President apparently has decided not to press his recommendations in this field until next year. Most Defense funds today are appropriated by Congress not to the Secretary of Defense but to the military departments. This, the President feels, doesn't give the Secretary and the Defense Comptroller enough authority over Defense spending.

"I regard it as fundamental," President Eisenhower said, "that the Secretary . . . should have greater flexibility in money matters, both among and within the military departments."

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Workers have most to gain when Congress ends union monopoly

TO CLEANSE THE Augean Stables, in the legendary labors of Hercules, it was necessary for that hero to divert the course of a river, making it run through the premises. That drastic action restored the outbuildings of the Grecian king to their original purity, as the torrent swept away the filth continuously deposited by 3,000 oxen, whose stalls had gone unsupervised for 30 years.

The famous fable is evidently in the mind of Sen. John L. McClellan, of Arkansas, when he tells us that: "The extent to which criminal, corrupt and disreputable elements have infiltrated and now dominate the labor movement in some areas is shocking to an alarming degree." For 16 months Mr. McClellan has served as chairman of the Senate Select Committee on Improper Activities in the Labor or Management Field. And this experience has convinced him that legislative action is essential to avert the danger of a gangster-dominated economy. "The honest, dedicated leadership of the labor movement," he says, "simply does not have either the capacity or the power to do it."

Senator McClellan's bill (S. 3618), to bring more democratic responsibility into labor union practices, is only one of several similar measures introduced during the current session of Congress. But his proposal is for several reasons outstanding.

• • •

It is probably the most carefully drafted, and certainly the most comprehensive, of all the bills under consideration in this field. It was drawn as a direct result of the specific abuses revealed in the lengthy hearings over which this Senator has presided with unfailing patience and objectivity. Furthermore, Senator McClellan makes clear that he has no pride of authorship, so long as the principles which he has done much to clarify are retained. He was from the outset anxious that S. 3618 should receive the most careful committee scrutiny, section by section, from those who oppose as well as from those who favor its provisions.

Indeed it was because of this desire for careful study of the labor problem in all its magnitude that this Arkansas Democrat opposed the attempt of Senator Knowland to write somewhat similar legislation on the Senate floor, at the end of April. This effort took the form of sweeping amendments to the noncontroversial legislation for the better regulation of union pension and welfare funds. Because these funds are always either separate or separable from the union treasuries, a closer supervision of them has not been opposed, has rather been urged, by many labor leaders. But when the issue deepens to regulation of the finances of the unions as such, and of their internal organization, the battle royal begins.

For that reason it seemed unwise to confuse the lesser with the larger problem.

This larger problem, accentuated by the increasingly monopolistic character of American unionism, is essentially twofold. There is the question

By Felix Morley



SMITH-BLACK STAR

of how the actual operation of a labor organization can be made to conform to its stated purposes. And there is the equally important question of the extent to which the dues-paying membership of the organization can properly be excluded from any control over that operation. These are proper subjects for legislative action because, as a result of earlier laws, union membership in many occupations and areas has been made virtually compulsory. Organized labor itself, as distinct from the small hierarchy of its entrenched professional leaders, has a greater interest than any other element in the community in having the problem of Big Unionism solved on lines of principle.

• • •

To secure conformity between ostensible purpose and actual practice, Senator McClellan would require continuous registration of unions with the Department of Labor. In addition to the charter and by-laws, registration would include the filing of an annual financial statement, detailing income and expenditure and approved by an independent and certified public accountant.

This material would at all times be available for public inspection. And in the event of demonstrated and unjustifiable discrepancies a culpable union could forfeit both its tax-exempt status and its right to certification as an authorized representative of employees. Any such determination by the Secretary of Labor, however, would be subject to court review.

Aside from opening the administrative procedures of Big Unionism to the light of day, the McClellan approach seeks to develop at least some democratic practice in its organization.

If American unionism had not followed such completely undemocratic lines in recent years, the case for registration would today be less impelling. The membership itself would be able to exercise oversight. Unfortunately as the hearings before the McClellan committee have so often demonstrated, the rank and file in numerous unions are currently without any control over their leadership. The interim report of this "rackets committee," made public recently, is explicit on the point. It says that, in the unions examined:

- (a) *Constitutions have been perverted or ignored.*
- (b) *One-man dictatorships have thrived.*
- (c) *Through fear, intimidation, and violence, the rank-and-file member has been shorn of a voice in his own union affairs, notably in financial matters.*
- (d) *Use of the secret ballot has been denied in many cases.*

A mass of evidence indicates that, if there is anything democratic in American unionism today,

it is much more in the Russian than in the American sense of that word. For every executive position there is generally only one hand-picked candidate. National officers cannot be held accountable to local membership, even on matters of the most vital importance to the latter. The conduct of collective bargaining, which would seem to be the most essential function of a local union, has now in many cases been entirely usurped by the self-perpetuating hierarchy of remote, and sometimes wholly irresponsible, union executives.

The argument that this *Fuehrer Prinzip* gets results for the disfranchised rank-and-file may or may not be true. But it is certainly beside the point, which is that under the American system, as contrasted with that of Nazi Germany or Communist Russia, some freedom of choice is supposed to be an inalienable right, for a member of a labor union no less than for a member of a church congregation.

• • •

In both houses of Congress, without serious partisan division, it is agreed that the basic American principle of free election should be established in the selection of union officials. It is reasonably asserted that it would be better if this were accomplished voluntarily rather than under legislative compulsion. This viewpoint is encouraged by election year timidity. Yet it is quite likely that Senator McClellan's formula would attract rather than repel labor votes.

Briefly, this formula is that after registration all local unions be compelled to hold general membership meetings, with adequate advance notice, at least three times a year; and that all executive officers "be elected by written, secret ballot by majority vote of the membership." Similarly, conventions of international unions would have to be summoned at least once every three years, choosing the top labor bosses for limited tenure, and under the further requirement that "each local union shall participate and have a vote based on the number of its members."

The most bitterly criticized feature of the proposed labor code is the provision for a secret ballot, and majority approval, before calling a strike on either the local or national level. The controversy over this makes it ironic to recall that, under American guidance, a clause to this effect was 10 years ago made a part of the Constitution of the German Federal Republic. Many believe that it is a major reason for the pronounced and continuous economic stability of Western Germany.

Quite possibly politics will prevent the cleansing of organized labor's Augean Stables this year. But action will eventually be imperative, in behalf of the wage earners themselves. So the disagreeable task had better be accomplished before accumulating dirt requires Herculean methods for its removal.



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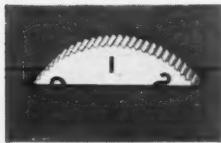
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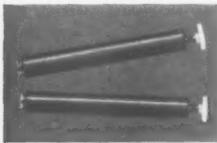
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Washington mood

President, looking fit, ready to fight the defense battle to finish

LIKE OTHERS who have held the office before him, President Eisenhower has learned that persuasion and conciliation are not always enough in dealing with Congress. He has learned that a Chief Executive sometimes has to do battle with the lawmakers, even to the point of telling them that they are talking through their hats.

That is what has happened here in connection with the Administration's plan to reorganize the Pentagon by giving the Secretary of Defense much greater authority over manpower, money, weapons and strategy. The plan has kicked up a furore that finds the President slugging it out with some of the most influential men on Capitol Hill.

What fascinates Washington is not the reorganization plan, which probably has not been read by one American in a million, but the behavior of President Eisenhower.

He has been almost Jacksonian in fighting for his plan. Reporters have seen him get red-faced with anger at his news conferences, as he has refuted charges that the plan would make the Secretary of Defense a czar and would lead to a Prussian-type general staff.

He has accused some of the critics of using far-fetched arguments and of talking nonsense.

Nobody was ever surprised when Franklin D. Roosevelt or Harry Truman used such language. In their time, feuding between the White House and Capitol Hill was the order of the day. But when Dwight D. Eisenhower starts loading and firing—well, it is surprising to say the least.

• • •

The soldier-statesman started out as President in 1953 determined to get along with Congress. He invited all 531 members—Democrats along with Republicans—to a series of White House luncheons. In private talks and in public speeches, he said he was going to strive for harmony between himself and the legislators.

"Government," he said, "must not allow its policies to be caught in the fatal crossfire of a Congress

and an Executive warring upon one another. Such a condition is not going to prevail if it is within the power of this Administration to prevent it."

The President seemed to go out of his way to emphasize his distaste for a fight. He said he was "not one of the desk-pounding type who likes to stick out his jaw and look like he is bossing the show." He reminded his countrymen that a man can be strong and mild at the same time.

It was with good reason that Prof. Clinton Rossiter, in his "The American Presidency," said that President Eisenhower would go down in history as one of the earth-smoothers, not one of the earth-shakers.

But the thirty-fourth President, in thinking he could escape quarrels with Congress, seemed to overlook two important facts. First, when the wise men who drafted the Constitution provided for a separation of powers, they made such quarrels almost certain. Second, a clash between the White

By Edward T. Folliard



TRENDS continued

House and the Capitol is not necessarily a bad thing; our history is replete with instances where it has been a very good thing.

When the Constitution was being drawn up, some of the architects were opposed to a system of checks and balances. They felt that, in the interest of order and efficiency, a dominant force was needed. Thus Roger Sherman thought that the President should be a mere agent of Congress, chosen simply to carry out the will of the lawmakers. Alexander Hamilton, on the other hand, thought that the President should be elected for life and should have great powers independent of Congress, along with absolute power to veto its enactments.

Fortunately, a majority of the draftsmen opposed such extremes. They had gone through a war of independence, brought on by the tyranny of Britain's George III, and they were determined that no one man and no one body would have an excess of authority in the new Republic. Hence the distribution of powers—and also limitations—among the executive, legislative and judicial branches of government, even though it might at times bring conflict and even stagnation.

• • •

That the American people like their system, whatever its faults, has been demonstrated over the years, but never more dramatically than in 1937. That was the year that President Franklin D. Roosevelt tried to reform or pack the Supreme Court because he disliked its opinions. He was riding high at the time, having carried 46 of the 48 states the year before, and he was supposed to have a rubber-stamp Congress. In this case, however, the United States Senate defied him.

The battle between President Roosevelt and the Senate was certainly a good thing for the country. It aroused the American people and led them to take a greater interest in the make-up and workings of their government.

There is not much of a parallel between that historic contest and the one now going on. President Eisenhower lacks the hunger for power that characterized FDR; he does not have what Arthur Vandenberg called the "Jupiter complex."

However, his vanity is involved to some extent in the current fight. Having been a professional soldier for 40 years, having led 3 million men to victory in World War II and then become supreme commander of the North Atlantic Treaty forces in Europe, he thinks his judgment counts for something when it comes to overhauling America's armed forces in this missile age.

Indeed, he thinks he knows more about our armed forces, and how they should be organized,

than any man now in active public life. He not only thinks so—he has said so, and on the record.

Not long after his reorganization plan had gone to Congress, he was told that some powerful men on the Hill were going to oppose it.

"I don't care how strong they are or how numerous they are," the President said. "Here is something that is necessary. It just so happens that I have got a little more experience in military organization and the directing of unified forces than anyone else on the active scene."

The reporters were surprised, never having seen the President so pugnacious and dogmatic. They were even more surprised when he told them that he would carry his fight to the people, saying:

"I would get onto the air as often as the television companies would let me."

He has been doing that, too. He made a "safety with solvency" speech at the annual meeting of the Chamber of Commerce of the United States. He did the same thing on the night of May 6 at a dinner in honor of the Republican members of Congress. He seems determined to go on and on until he has built a fire under Congress, hoping that the heat will force the legislators into line.

Congressional opponents of the reorganization plan, at least as first drafted, are not awed by the President's 5-star military background. This is especially true of Rep. Carl Vinson, chairman of the House Armed Services Committee. The 74-year-old Georgia Democrat came to the House in 1914, when Dwight D. Eisenhower was still a cadet at West Point, and he has been a student of military affairs throughout his 44 years on the Hill.

Chairman Vinson is aware that a reorganization and streamlining is needed in this perilous age. However, he is deeply convinced that the Eisenhower plan would create a dangerous concentration of power in the Secretary of Defense, power that might not be abused by Neil McElroy but might be by somebody in his post later on.

The battle promises to be a long one, but with the usual result: a compromise law.

One curious aspect of President Eisenhower's fight for his reorganization plan has been the interpretation certain Democrats and some Washington commentators have put on it. They saw in his display of temper an indication that the irritations of his job were getting him down. They went on from there to speculate that he might resign and turn the White House over to Vice President Nixon.

President Eisenhower scoffed at this when asked about it at a news conference, saying he was determined to stay on at the White House as long as he is capable of doing the job.

Keeping this in mind, it can be said that the President looks very well for a man who is going on 68, and who in three years has had a heart attack, an ileitis operation, and a little stroke. He must feel fairly well, too, or he would not be making the spirited fight on which he is now embarked.

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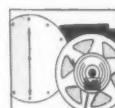
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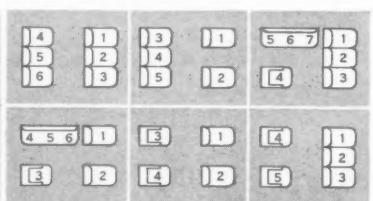
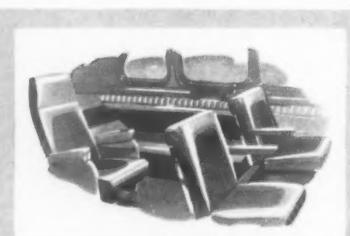
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WAGE PUSH FEEDS RECESSION

Labor union power blocks forces for recovery. What some firms are doing

LONG-TERM LABOR CONTRACTS in which employers agreed to raise wages in the unforeseeable future are interfering with business recovery.

The higher pay was promised when business was booming. Today, with business activity reduced, profits shrinking, productivity lagging, and unemployment increasing, labor costs keep rising relentlessly, building upward pressures under prices.

These built-in wage increases and others that have little economic justification make it difficult for our private enterprise economy to perform its normal function and help speed business recovery.

As one observer put it, "Labor's power has repealed the law of supply and demand."

Businessmen, as a result, are taking two steps in the present situation which may bear on future wage bargaining and labor's reaction to cost saving. They are:

- Taking a second look at the wisdom of long-term contracts with built-in wage boosts. This is giving them a closer realization of labor's power and the impact of these increases on other wage settlements and the economy generally when the increases are not related to higher output.
- Working harder at getting unions to help eliminate wasteful practices and cut costs in other ways. One

company in trouble persuaded a local of the United Automobile Workers to trim enough frills from the labor contract to keep a plant in production, save 1,200 jobs and cut costs \$500,000 a year—enough to convert a losing year into a profitable one.

The long-term contract problem is a big one because these documents cover more than 4 million employes in basic and pattern-setting industries, such as automobiles, steel, aluminum, railroads, trucking, copper mining, electrical, aircraft and meat packing. They provide predetermined annual increases, usually supplemented by a cost-of-living escalator tied to the Consumer Price Index, published monthly by the Bureau of Labor Statistics.

Although most of them are for three years, the contract expiration dates are staggered so that the automatic increase in one industry, coming at a time when the contract is expiring in another, builds pressure for a similar increase in the latter industry irrespective of the economic situation.

The automobile industry, for instance, in recent negotiations has been in a position of having to offer the UAW a sizable wage increase to a large extent because of the imminence of wage rate and fringe benefit increases in steel on July 1 which will raise employment costs about 20 cents an hour per em-

WAGE PUSH FEEDS RECESSION *continued*

ploye. Renewal of long-term agreements in the automobile industry will reverse the situation a year from now when the steel contracts expire.

The effect of this coat-tail riding, which minimizes consideration of current and future business, industry or company conditions in bargaining, has been to raise wages much faster than productivity increases. Economists feel that this has contributed to inflation and the fact that we have had rising prices in a recession.

The cost of living has continued to rise in 1958, forcing escalator wage increases in addition to the deferred, automatic ones. According to BLS Commissioner Ewan Clague, a rise of one point in the CPI raises wage costs \$180 million a year—\$160 million for those workers covered by escalator agreements and \$20 million for other employees not covered by union contract to whom the same employers voluntarily granted parallel increases.

In a period of a year and a half the steel workers have had escalator increases of 12 cents an hour (with about another three cents due July 1), in addition to regular hourly wage increases totaling almost 20 cents, and costly fringe benefits.

The 1958 escalator increases will mean increased earnings for workers who remain on the job full time, Mr. Clague points out, but he warns, "It may also result in some increased unemployment because of higher costs."

Economists have pointed out how wage rates have

interfered with normal recovery measures in this first business recession since long-term contracts began to spread eight years ago.

Sumner Slichter of Harvard says much of today's inflation is due to the fact that, in all but two of the past nine years, labor has been able to get wage increases unjustified by productivity.

He calls this a wage-push inflation, a problem which can be mitigated, but not cured, by technological and management improvements which increase productivity without raising the demand for capital goods.

"But these methods can hardly be expected to raise productivity as fast as unions put up wages," Dr. Slichter says.

"So we come face to face with the essential fact that most employers are not strong enough to resist the demand of unions."

He sees some improvement coming out of the present situation, however, as employers and the public increase their opposition to wage demands that outrun productivity.

"The recession is stiffening the resistance of employers to excessive wage increases because it is teaching some employers the costliness of agreeing to substantial wage increases far in advance," Dr. Slichter believes. "The experience of 1958 will warn employers to go easy in committing themselves."

Dr. Emerson P. Schmidt, director of economic research for the U. S. *(continued on page 58)*



In 1953—when business boomed auto workers' Reuther said:

"A contract must be a living document. It must respond flexibly to outside forces which neither side could have anticipated at the time it was made."

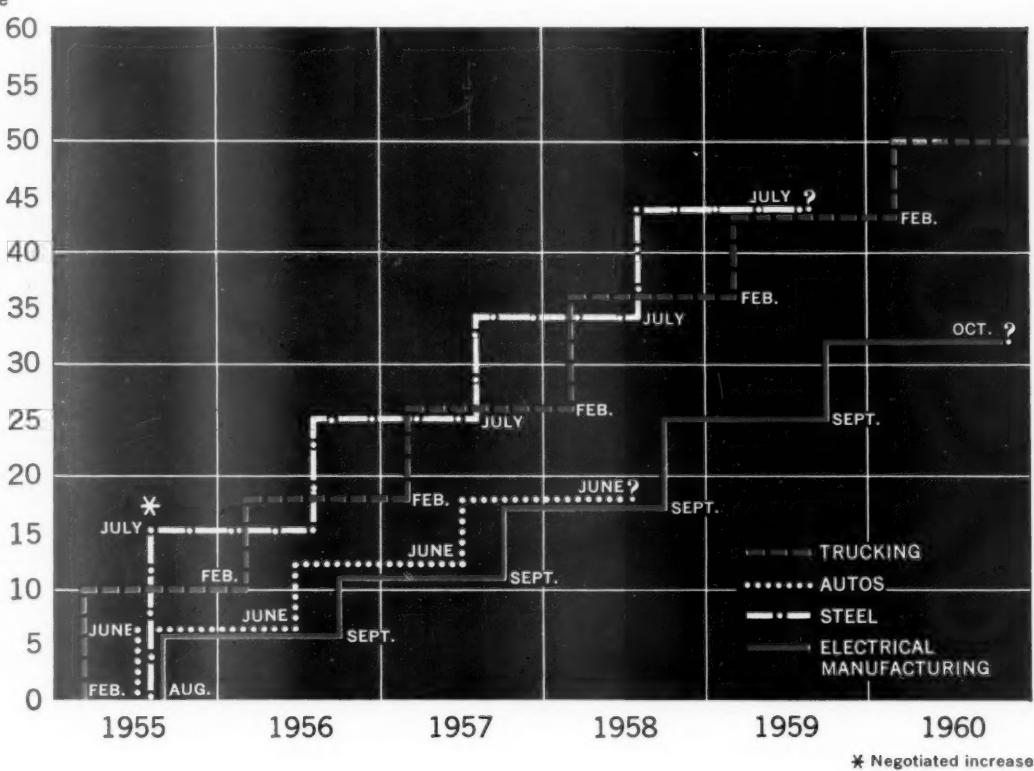


In 1958—with business down steel workers' McDonald says:

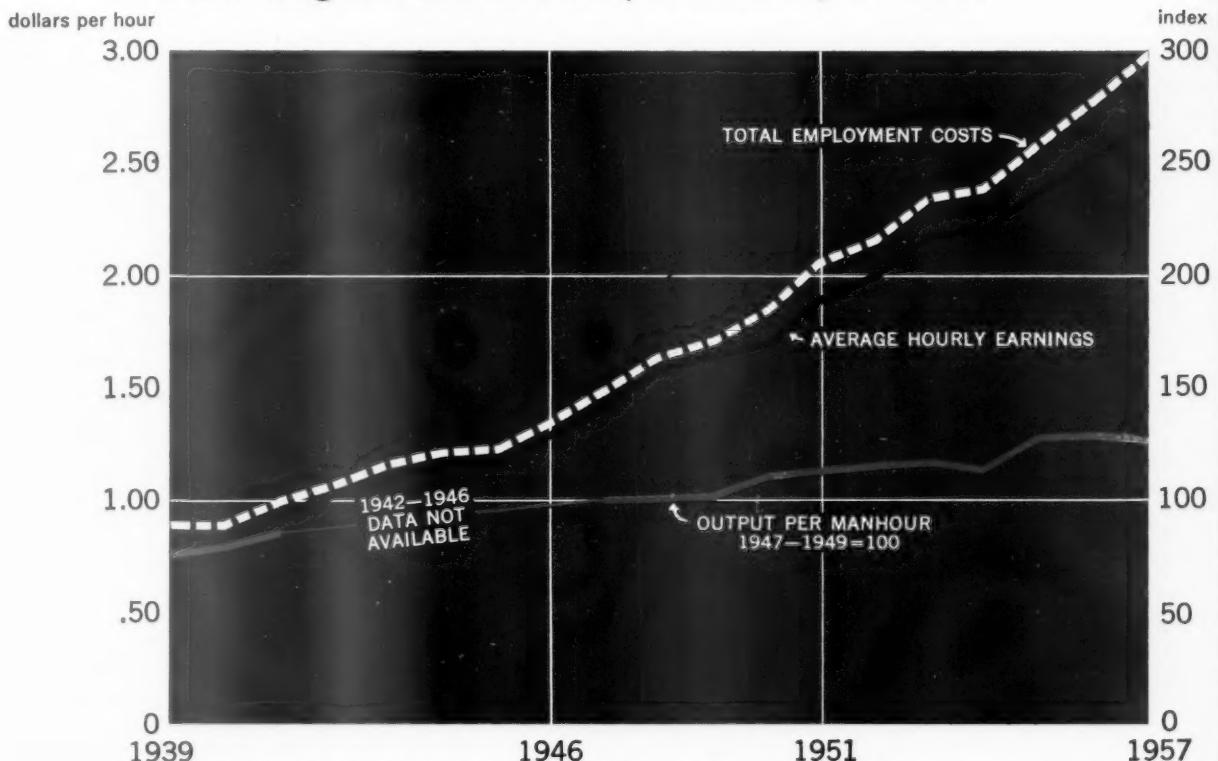
"A labor contract is a sacred thing. There were times when we might have asked to reopen our contract, and fared better, but we did not because we regard it as sacred."

cents per hour
rate increase

Built-in wage increases, past and future



How wages have outrun productivity in steel



SOURCES: Bureau of Labor Statistics and American Iron and Steel Institute

When and how upturn will come

Specialist on business outlook tells what you can expect to happen next

By MARCUS NADLER

THE QUESTIONS uppermost in everybody's mind today are:

- “How far will the recession go?”
- “How long will it last?”

Before these questions can be answered and appropriate conclusions drawn, it is necessary to view the economy in its proper perspective.

We need to know:

- What are the basic strengths of the economy?
- What contributed to the downturn?
- What corrective steps have been taken?

With answers to these in mind we will be ready to calculate:

- The outlook.

The decline in business activity which set in during the final quarter of 1957 marks the first general post-war recession the country has experienced. It differs materially from the economic setbacks in 1948-49 and 1953-54, which were properly termed rolling readjustments. The principal difference between the current recession and the two preceding readjustments is that at present we are at the end of a period during which the country faced the task of filling the economic void left by the depression and World War II.

In the 1930's and during the war, the construction of homes was on a low level and many capital goods and durable consumer goods expenditures were postponed, either because of the poor business outlook during the depression or because the war effort absorbed about 50 per cent of the total national output. These conditions created a void which eventually had to be filled. Meanwhile, during the war, the liquid savings of the people rose at an unprecedented rate.

After the war the general standard of living and the demand for goods and services increased steadily. This was reflected particularly in a sharp rise in housing

starts and in sales of automobiles and other durable goods. Moreover, this country was called upon to contribute materially to the rehabilitation of the free world. From the end of the war through 1957 the United States provided foreign nations with grants and credits of about \$65 billion, primarily in the form of goods. This aid also contributed considerably to the postwar booms.

Finally, the Korean war and the aggressive attitude of the Soviet Union forced the United States to adopt what has been aptly termed a garrison economy. The nation faced the task of rapidly erecting new plants to produce defense materials, a program aided by the accelerated amortization for tax purposes permitted by the government. This program, together with rising civilian demand, greatly stimulated capital expenditures by corporations.

The post-Korean period was also marked by a sharp increase in defense expenditures.

These forces, which have had such an important expansive impact on the economy, have either come to an end or have been greatly reduced in intensity. At the moment there is no single force on the horizon, at least in the private sector of the economy, which could spur business activity to the same extent as during 1950-53 and 1955-56.

Basic strengths

In some respects the economy today may resemble that of 1930. There are, however, fundamental differences which warrant the conclusion that a depression of the depth and duration of that of the 1930's is entirely out of the question. The principal differences may be summarized as follows:

1. Although the Federal Reserve index of industrial production (seasonally adjusted) decreased by 11.7

per cent from August 1957 to March 1958 and unemployment during this period was doubled (rising from 2,609,000 to 5,198,000), disposable personal income in the first quarter of 1958 was only 1.3 per cent smaller than the peak reached in the third quarter of 1957. In the three years 1930-32, on the other hand, disposable personal income dropped 41 per cent. Moreover, not only is current income still high but liquid savings are tremendous and the people have a much higher degree of economic security than existed in the early 1930's.

2. In contrast to conditions in 1930-33, when thousands of banks closed, our financial institutions are in an impregnable position. The banking system has been greatly strengthened and has been forged into a better instrument for serving the credit needs of the economy. Further broadening of the credit base, either through open market purchases of government obligations by the Federal Reserve banks, or lowering of reserve requirements, will increase the availability of credit at lower rates of interest, and in time this is bound to have its impact on the economy.

3. Many institutional changes have greatly strengthened our economy. Whereas from 1928 to 1932 net farm income dropped by two thirds, at present farm income is actually increasing. The 1930's were marked by widespread foreclosures. Today virtually all mortgages are of the amortized type and mortgage debt rests to a considerable extent on the credit of the government or its agencies. Moreover, built-in stabilizers, such as unemployment insurance and old-age pensions, have proven to be rather effective in cushioning the decline in purchasing power during a business downturn.

These and other factors give assurance that the recession will not become an old-fashioned depression.

Causes of the decline

The present downturn did not come as a surprise. The forces which brought it about were discernible for some time. The decline in business activity since last fall has been caused by a number of factors, some basic and others temporary.

The basic factors:

1. Expenditures by business for plant and equipment have been estimated to be 13 per cent smaller in 1958 than in 1957. In all likelihood capital investment will continue to decline throughout 1958, partly because productive capacity is greater than present demand and partly because of the strong squeeze on profit margins and the changed economic climate.

2. Exports, which were at record levels during 1956 and 1957, will continue to decrease, since the boom in Western Europe is also coming to an end and the productive capacity of the free countries has risen materially. Owing to the sharp decline in world commodity prices, the raw materials exporting countries face reduced earnings of foreign exchange, particularly dollars. Their ability to buy in the United States has, therefore, been decreased and a reversal of this trend is not likely in the near future.

3. Various maladjustments which crept into the economy during the boom, notably in wages and, to a

lesser extent, prices, have contributed to the decline. Wages in many of the highly organized mass production industries have increased faster than in other fields. As a result, prices of goods produced by these industries have risen considerably and often are beyond the reach of a large portion of the population whose income has not expanded correspondingly. It is no wonder that unemployment is most pronounced in these industries, such as automobiles, rubber, steel and construction.

These forces are basic and will continue to exercise a depressing influence for some time—certainly through 1958 and possibly the greater part of 1959.

The temporary factors:

1. The decline in inventories. Manufacturing and trade inventories decreased from \$91.3 billion (seasonally adjusted) at the end of September 1957 to \$89.3 billion in February 1958. This, however, is a passing phase. After a relatively short time the liquidation will come to an end and rebuilding of inventories will begin.

2. The tendency of consumers to save more, to repay debt, and to spend less. This trend is evidenced by the fact that savings channeled into savings institutions increased materially during the first quarter of the year and that consumer credit decreased by \$1.7 billion during the first two months. However, this, too, is temporary. After a while the financial position of many families will have improved, and they will again be in the market for new durable goods and houses.

Corrective measures

The Employment Act of 1946 imposes on the government the obligation to do everything within its power to keep the *(continued on page 62)*



A noted analyst of economic trends, Dr. Marcus Nadler is professor of finance at New York University Graduate School of Business Administration and a business consultant whose opinions are widely sought



Drs. Levinson and Modlin say



managers are lonely,

WHAT YOU CAN DO ABOUT STRESS

It's natural for successful executives to feel tension. Understanding the causes is the first step to control it

A Nation's Business interview with
Dr. Harry Levinson
and Dr. Herbert C. Modlin,
The Menninger Foundation

Dr. Levinson and Dr. Modlin, there seems to be increasing attention being given to problems of executives' stress. Why is this?

DR. LEVINSON: One thing should be made clear:

From all this current interest in the executive, his health and his problems, one would get the impression that the executive is the most troubled person in the world. Now, this isn't true. In fact, we have talked so much about the problems of executives that we find some young men coming out of college not wanting to become executives because of the hazards.

The executive, as a human being, has the same kind of problems everybody else has. One might then say, "Well, if he has the same kind of problems, why don't you just leave him alone? Let him take care of them the way everybody else does."

On the other hand, perhaps we ought to think of the executive and his problems because of the important role that he plays in our industrial society. He is, after all, responsible for maintaining the effectiveness of his part of the economy in providing benefits to society.

All of us have a certain dependence on them. Therefore, we have to consider this leadership role and its effect on the people who fulfill it.

What are some of the principal causes of stress in an executive's life?

DR. MODLIN: The one that I hear most about is loneliness.

What can executives do about this?

DR. MODLIN: One of the things they have to do is to understand what it is and accept it. It happens to all of us. I remember a few years ago I was operating a hospital team of several people and we were just getting started. After a while we were operating rather smoothly.

One week I became aware that one of our group was moving, and several of the other members of the team had gone over to help her move. No one had said anything to me about it. Nobody had asked me to help. Well, I was talking with my supervisor about this and rather wryly said, "They left me out; they rejected



are too confined,



spread selves too thin

me." And he said, "Congratulations! You are really the team leader now."

Is there no other way to cope with this?

DR. MODLIN: One of the major problems that certain people—many executives among them—face is that they get too narrowly constrained. The most important thing is our personal relationships.

What do you mean by that exactly?

DR. MODLIN: Relations with other people. Assume that the lonely executive has developed a hobby of stamp-collecting. For him to sit in his study at night and putter with his stamps may be a change of pace and relaxation, but it doesn't bring him much into contact with other people.

He can use that same hobby to be an active member of a local stamp club, to take an occasional trip to a stamp convention. A hobby can be used in different ways. But just a hobby wouldn't produce the desired result.

In addition to loneliness, are there other basic problems of the executive?

DR. LEVINSON: One is for any executive to recognize that he is in a leadership role; that he has a certain amount of power and other people have certain expectations of him as a result.

Once he recognizes that people have expectations, it becomes important to keep up with them. What do people think of him and his leadership?

How do you find that out?

DR. LEVINSON: One good way is by having relationships with people in the organization which permit them to talk fairly freely with you.

Industry has tried to do this in different ways; the open-door policy, attitude surveys, things of this sort. But there is no substitute for personal contact.

I don't mean that the executive has to be buddy-buddy with everybody. But he has to have some idea of what's happening to people in his organization, of the effects of decisions that he may make. He must ask them how things are going and their opinions on var-

ious things. Along with this goes the idea that, to a certain extent, leadership in any situation is an act of renunciation. That is, to get the job done, a leader has to give up some things. He has to let other people do part of it.

At the same time, he has to give people support so that they can grow with this responsibility. Much of the task of the executive is developing people.

DR. MODLIN: This, by the way, is one of the executive's problems. In any organization the promising young man has to be aware of competition. Then when he gets to the top he has to forget about competition, and develop subordinates who are going to take his place. This is a difficult switch for him to adapt to.

DR. LEVINSON: Another thing is that, when one grows into a position of responsibility in a company, he takes on a social responsibility. Industrial leaders, business leaders, carry more than the responsibility for their own organization.

As one tends to have power and influence beyond his own organization into broader society, he is expected to use his leadership abilities and the results of his organization to add to the community, to help strengthen it, to provide jobs for people, to make it a better community.

If he fails to do that then he is subject to attack by society.

So an executive is a kind of a social engineer, if you will. Sometimes he is not quite aware that he is doing something more than running the business.

The problem, then, is how to balance business values with what one might call people values, social values, ethical values, and so on.

What are other sources of stress?

DR. LEVINSON: Devotion to job success is another cause of tension. If you are going to be successful, you sometimes singlemindedly pursue that particular goal at the cost of other things—for example, family relationships.

Often the pressure upward has no terminal point. One moves up without knowing (*continued on page 90*)

DEFENSE NEED: freedom to manage

Pentagon chief seeks new flexibility and stronger defense in reorganization plan

ON THE DESK of an Air Force officer in the remote recesses of the Pentagon is a small sign which says:

"If the boss calls, get his name."

This wry bit of military humor sums up, better than all of the warnings emanating from the White House and Capitol Hill, the real problem involved in the current Washington battle over defense reorganization.

The United States Department of Defense is the biggest enterprise that human beings have ever been called upon to manage. In the size, complexity and diversity of its operations, it dwarfs our largest industrial corporations. It has a payroll of \$15 billion a year. It spends \$24 billion a year on procurement and construction. It controls 27 million acres of land, 700 major installations, more than 350,000 warehouses, plants and buildings. In its Washington headquarters alone are 26,691 employees.

Behind all the sound and fury of the controversy over reorganization are two deeply emotional reactions to the sheer immensity of the Defense Department.

One is that no democratic nation dares entrust to one executive, or to one group of executives, absolute control over such a vast military organization. This viewpoint has prevailed in Congress since the armed forces were first unified in 1947. It is the rationale behind all of the legal fetters which Congress has deliberately fastened on the authority of the Secretary of Defense. It is the reason why Chairman Carl Vinson of the House Armed Services Committee and other congressmen cried "czar" when they got a look at the reorganization bill.

The other viewpoint is that managing the defense colossus is a hard enough job when the top executives have adequate authority. When their managerial power is restricted, the task becomes fantastically difficult. This viewpoint, strongly held by President Eisenhower, is the basic motivation behind the changes requested in his reorganization proposals.

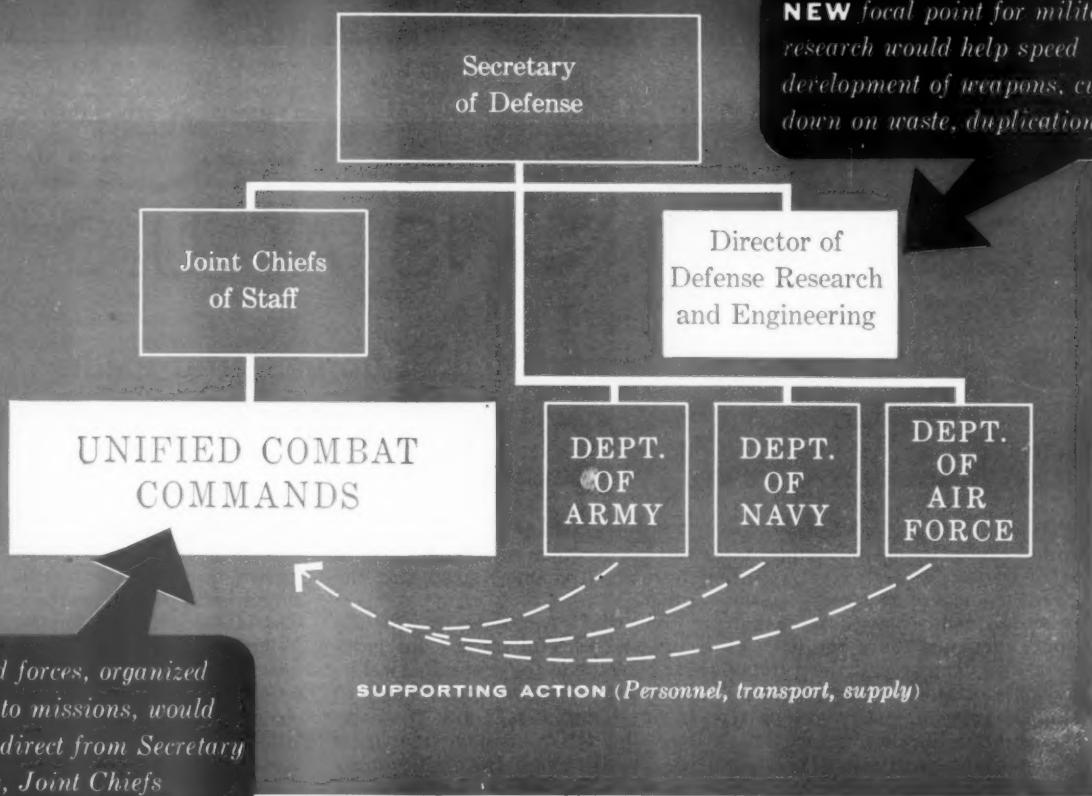
The man in the middle of this head-on collision of viewpoints is Neil H. McElroy, former president of Procter & Gamble, who was drafted from the business world early this year to be Secretary of Defense.

It was not Mr. McElroy's idea to get into a fight with Congress over reorganization a few months after he took office. He would have preferred to wait until he had a little more personal experience with Pentagon management problems, and until he had found out how much he could achieve under the present set-up by forceful executive action and prompt decision-making.

But even though Secretary McElroy was pushed into the fray by President Eisenhower somewhat earlier than he might have wished, and although he has taken a conciliatory tone in his testimony before Congress, it is an error to leap to the conclusion that he is halfhearted or lukewarm about the reorganization.

In a long private interview with NATION'S BUSINESS, Secretary McElroy made clear that he believes emphatically in the need for the changes in law which the Administration has requested.

He acknowledged that these changes will not lead to sudden dramatic cuts in defense spending nor will



President Eisenhower's reorganization proposal includes these major changes

they magically turn the Pentagon into a well organized, tightly managed shop. They are primarily intended to remove negative barriers to efficient management, rather than to achieve positive reforms. Even if Congress passes the requested legislation without crippling amendments, the ultimate success of the reorganization will depend on how wisely and determinedly the Secretary uses the broader powers it provides.

But when all these qualifications are made, Mr. McElroy still regards the reorganization legislation as an indispensable weapon in his battle to bring economy and efficiency into the defense establishment.

He told NATION'S BUSINESS:

"I believe businessmen can be assured that if Congress takes the legislative decisions requested, and if we in the executive branch exercise firmness and good judgment in administrative action, we will have a definitely better protection of our national security and a measurable improvement in efficiency and management of this department."

Secretary McElroy is particularly concerned about what he calls the "fuzziness" of the present legal definition of the Defense Secretary's executive authority.

In one section, the National Security Act gives the Secretary "direction, authority and control over the Department of Defense."

Only four paragraphs later, the same law says that the subordinate departments of the Army, Navy and Air Force are to be "separately administered by their respective secretaries."

To date, none of the military departments has used this apparent contradiction to defy the Defense Secretary's explicit orders in a showdown. But it has been used repeatedly to resist the plain intent of his policies, or to delay compliance until a specific edict is issued in each case. It has been, in the words of Charles A. Coolidge, the Boston lawyer who is serving as Secretary McElroy's special assistant on reorganization, "sand in the gears" of the defense organization structure.

To cite only one example, individual services have used the separately administered clause to drag their feet on the so-called "single manager plan" of procurement. This plan, which could lead to substantial economies, involves the designation of one service to act as supply agent for all services for a particular type of material.

Another built-in invitation to controversy is the roles and missions section of the unification law. This assigns combat functions to the Army, Navy, Air Force and Marine Corps in some detail (even to the point of prescribing that the Marines "shall be so organized as to include not less than three combat divisions and three air wings").

The law now specifically forbids the defense secretary to "transfer, reassign, abolish or consolidate" any of the functions thus assigned to individual services. It also forbids him to shift men or money around within the department in any manner that might impair any service's ability to perform its assigned functions. If the

(continued on page 48)

REDS AIM ECONOMIC GUNS AT U.S.

New trade battle now shaping up has vital meaning for business. Specialist analyzes what's ahead

RUSSIA INTENDS to destroy the United States by means of international trade.

This choice of weapons by the Soviet leadership may seem, at first, a bit ridiculous. Since the days of the Yankee trader and the Clipper ships, the United States has been demonstrating its ability to outproduce and outsell other nations.

How, then, can Russia's threat be regarded as more than empty boasting?

The reason is that, in the coming battle, the American businessman will be fighting under ground rules which the USSR will change to suit itself.

In meeting the communist trade challenge, our businessmen will face new kinds of competition, new strategies, new maneuvers.

In this competition, the Soviet will have certain inherent advantages.

It will also have some visible disadvantages.

Survival will require that American businessmen understand how to overcome the one and utilize the other.

Khrushchev chooses to call this contest "peaceful trade," but judging by some of the preliminary skirmishes, the engagement promises to be anything but peaceful. We know that the Kremlin stage managers have fixed their sights on a number of targets; that they intend to use trade to intensify existing tensions and to create new ones wherever possible.

For the short term, they appear to be aiming at a number of specific, essential supply lines and established markets of great concern to the free nations.

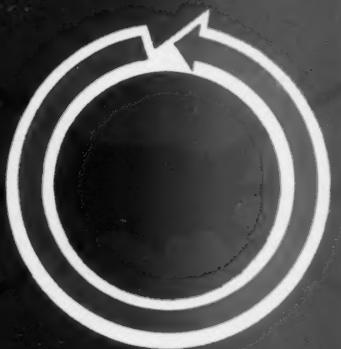
As part of their long-term goals, they hope to use trade to persuade the newly independent, underdeveloped nations that their best chance for economic progress lies in totalitarian economic organization. They hope to use the whole world as a

stage upon which to demonstrate this proposition. They have let it be known, however, that their prime target is the American businessman and his way of producing and distributing goods.

By reason of their international ambitions, the Soviet leaders have always considered themselves at war with the entire outside world. Every kind of contact across the frontier—diplomacy, economic exchanges, scientific projects, public information, or mutual visits—thus automatically becomes a political tug-of-war. As the first means of contact with the outside, trade was the first to become a prime weapon. To make sure that this weapon is wielded from a single command center, the Soviet regime early set up its trade as a government monopoly.

The architect of this monopoly, Leonid Krassin, first national Commissar for Foreign Trade, laid down the line that "in the absence of war, the struggle continues on the eco-

SHORT-RUN objective of Reds is to disrupt our supply lines and markets



LONG-RANGE objective is to enmesh underdeveloped lands in Soviet net



nomic front, specifically on the foreign trade front."

Before World War II, however, the USSR saw little opportunity for success in exercising pressure through trade except against the small countries on its Asian borders. Its working policy was to limit annual exports to a point where they would approximately pay for essential imports. All import transactions were channeled toward maximum self-sufficiency within the shortest space of time. In short, Russia's practice before World War II was to import in order to reduce the need for imports. As a result, the general trend in Soviet trade with other nations during the '30's was running steadily downward. By 1938, the Soviet Union, which included eight per cent of the world's population, accounted for only one per cent of total world trade.

After the war, the Soviet began to show increasing self-confidence in its ability to manipulate the trade weapon. Through the war it had acquired a ring of satellite nations on its western border. After imposing minority regimes on these countries, the USSR reshaped their economies according to the Soviet mold. In this reshaping foreign trade played a telling role.

The method was arbitrary, brutal, but effective. Throughout the area, the USSR directed a carefully selected stream of exports into each economy. At the same time, it requisitioned specified volumes of surpluses for its own use. When necessary, it provided short-term credits to relieve the strains created by its own intervention in these countries' economic life. Large industrial monuments were built up in each country, and agriculture was seriously dislocated. These lopsided economic structures are incapable of meeting the normal needs of a modern distributive economy. But they are the embodiment of the Soviet formula of economic development.

If trade can be used for carrying Soviet influence into Eastern Europe, why not beyond? This question was apparently not raised so long as Stalin was alive. About the middle of 1953, however, Russia began some preliminary testing of the trade weapon from Argentina to Iceland and from Burma to Ghana.

The early tests were not an unqualified success. They were based on a straight-out commercial appeal, made more attractive by an offer of machinery exports on credit. The experience in Argentina revealed weaknesses in the system.

Argentina was selected because its government policy was at once totalitarian and aggressively anti-



RUSSIAN SUCCESS in using trade as a cold war weapon is eloquently demonstrated by the case of Egypt. Here Moscow-indebted Gamal Abdel Nasser shakes hands with Soviet Chief of State Voroshilov at Moscow airfield after arriving for visit. Nikita Khrushchev looks on

American. An agreement signed with the Perón government in 1953 included an offer of a \$30 million credit to cover the export of Soviet industrial equipment. An intensive selling campaign followed, but only token shipments (\$8 million) found their way to the Argentine market.

It soon became clear to the Russians that, although the government signed the agreements, private importers were expected to make the actual purchases. And these experienced firms did not rush to sign new equipment contracts with the hitherto unknown state-trading agencies of the Soviet government.

The terms, true enough, were attractive. The Soviet agencies were offering unusually favorable prices; delivery dates at the convenience of the importers; credits at 2.5 per cent interest a year and for any desired duration. However, from the importers' viewpoint, the Soviet monopoly was an unfamiliar and forbidding trade partner; and the proposed deals were surrounded by many imponderable factors. Beyond the commercial and supply uncertainties, which were legion, lurked a legitimate doubt as to whether the Soviet interest in an importer's commercial needs would remain as keen in the event his government's foreign policy should change in a direction that Russia did not approve.

A more spectacular appeal was needed and it was soon found.

To unveil this new technique, Khrushchev and Bulganin took to the road in December, 1955, to advertise to the nations of Asia and beyond that the Soviet government was ready to export economic development. The practical consequences of that trip were a series of government-to-government agreements signed in 1955-57. The USSR undertook to extend long-term economic assistance to three countries in Asia, two in the Near East. A sixth, Yugoslavia, benefited for an altogether different reason. The strictly noneconomic motive in her case was to try to induce a more subservient pattern of communist behavior among Yugoslav leaders.

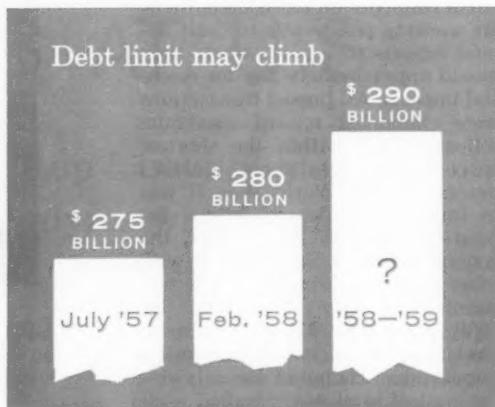
By all these commitments the Soviet government has undertaken to provide about \$1.2 billion in economic aid to the six countries. This aid is to be allocated if and as Moscow and the recipient governments agree upon specific projects. To date, the distribution of the Soviet batch of offers has been highly selective. The largest amount (\$370 million) was extended to Yugoslavia. India received two credits, adding up to \$240 million. Soviet economic aid offers to Egypt, exclusive of arms on credit, came to \$175 million. Afghanistan was granted several credits, totaling \$140 million. A credit of \$143 million was set up for the use of Syria; another

(continued on page 42)

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



AGRICULTURE

Farmers need not become apprehensive that the current recession will grow into a full-scale agricultural depression.

This spring's record of rising prices for food products concurrently with a declining market for durable, or hard goods, largely reflects supply situations. But demand for food continues strong.

Farmers can expect lower prices for livestock, fruits and vegetables as the summer passes but the decline will be due to cyclical and seasonal increases in marketings rather than to consumer buying resistance.

The bright side of the recession from the farmer's point of view includes generally lower interest rates and the hope of some easing of the upward pressure on costs. Producers located near areas of substantial unemployment may also be able to fill seasonal labor requirements at wages that farmers can afford to pay.

CONSTRUCTION

It appears reasonable to expect that the cost to build almost anything from a cottage to a skyscraper will push upward at a rate of about one per cent every four months, according to a recent study made by the Dow Real Estate Valuation Calculator.

Also according to this authoritative study of the two major components of construction cost—materials and labor—labor again has exhibited the greater strength.

The price tag on construction to-

day is roughly two and one-half times what it was in 1941. In other words, the \$8,000 house of 1941, exclusive of land and charges other than labor and materials for construction, would come today with a tag for \$20,000, making the current building dollar worth about 40 cents in 1941 terms.

CREDIT & FINANCE

Congress is dusting off old ideas and reconsidering them as antirecession aids.

Extensive hearings have been held during the past month, for instance, on three major federal financial proposals: small business financing, depressed areas, and community facilities.

Each of these would ordinarily come in for separate and searching examination; but this year action may be faster. The Senate has already approved a \$1 billion Community Facilities bill; House Banking Committee hearings just ended may produce a final bill in all three areas.

The Financial Institutions Act, a constructive recodification of banking law undertaken by the Senate last session, has been pigeonholed in the House Banking Committee. Final consideration of the measure may become possible during the latter part of the session.

The Small Business Administration reports the demand for loans is climbing. There were 427 loans approved and granted in April for a total of \$20,181,000—higher than any previous month.

DISTRIBUTION

Retail trade on the whole continues stable, and there are signs that sales are perking up—responding to spring and to the energetic "buy now" drives cropping up all over the country.

Department store sales, since Jan. 1, are running a couple of notches below last year's level. However, sales activity in recent weeks has shown a steady upward thrust. Variety stores are stepping up their promotional activity. While sales are holding at near-1957 levels, the effort to stem creeping costs is taxing management ingenuity.

Both retail food prices and sales were up in the first quarter. Prices rose six per cent and sales were nine per cent higher than in the comparable period last year. The 1958 price level likely will stay higher than 1957 because of reduced supplies and strong demand, according to the Department of Agriculture.

The Department of Commerce reports that consumers in the first quarter of 1958 spent less of their after-tax income on durable goods than they had spent at any time in the past 10 years.

FOREIGN TRADE

Senator Humphrey of Minnesota has announced that he will offer an adjustment to the Trade Agreements Act extension when the Senate considers it this month.

Complaints are that the escape clause provisions of the present Act have failed to afford adequate pro-

Chamber of Commerce of the United States

tection to domestic industries affected by imports.

Many spokesmen for business, labor, church and civic groups have emphasized a need for temporary, marginal assistance to those industries, workers and communities that may be seriously affected by imports.

Several bills on Adjustment Assistance have already been introduced in the current session. Among them are:

"A Bill to Assist Small-Business Concerns," introduced jointly by Senators Javits (N.Y.), Saltonstall (Mass.), Potter (Mich.), and Ives (N.Y.).

A "Bill to Provide Assistance to Communities, Industries and Individuals to Facilitate Adjustment Made Necessary by the Trade Policy of the U. S." introduced by Senator Kennedy (Mass.).

Identical House bills by Representatives Eberhardt (Pa.) and Donahue (Mass.).

GOVERNMENT SPENDING

Action on appropriations which has been relatively slow in both the House and Senate should pick up in tempo this month in an effort to get all bills through before the beginning of the fiscal year. The one exception may be the Mutual Security bill which has a tendency to lag.

The economy picture continues to be bleak with a \$10 billion deficit virtually assured for fiscal 1959. Tax cuts, pay raises for both classified and postal employees, and some of the pump-priming legislation in the mill—if passed—will increase this.

Even the currently estimated \$3 billion deficit for fiscal 1958 may be exceeded, particularly if the high pay increase bills are passed with their retroactive features.

Best hope for economy advocates under current circumstances lies in reorganization of the Defense Department along lines proposed by the President and a revamping of its appropriation structure. Both moves go to the heart of the problem of waste caused by interservice bickering and rivalries.

NATURAL RESOURCES

The domestic metals mining industry, everyone agrees, is in a bad way because of imports of foreign metals at prices so low that the do-

mestic industry cannot compete. But few people agree on a cure.

Last year the President's Cabinet Mineral Policy Committee and the Secretary of the Interior recommended legislation to establish a sliding-scale tariff for lead and zinc. The bill bogged down in the House Ways and Means Committee, and the industry then asked the Tariff Commission for a restoration of tariffs under the escape clause of the Reciprocal Trade Agreements Act. The Commission split on the kind of tariffs to be provided. Meanwhile, copper, tungsten, and fluorspar became ailing industries.

This year has brought more proposed remedies but, as yet, no relief. The mining industry wants an import tax to be imposed whenever average monthly metals prices fall below prescribed peril points.

The Secretary of the Interior proposes legislation to set a stabilization price for specified annual quantities of copper, lead, zinc, fluorspar, and tungsten. The federal government would pay producers the difference between market price and stabilization price.

LABOR

All hopes for corrective labor legislation in the closing months of the 85th Congress rest with the House of Representatives and its labor committee. Although the Senate completed action on a pension and welfare fund bill and held hearings on general proposals for new labor laws, the likelihood for major legislation is small.

In addition to such handicaps as the coming election and the strong political influence of union officials, key committee members of the House Committee on Education and Labor are on record in opposition to restrictive legislation for unions. Representative Perkins (D-Ky.) who will chair the subcommittee considering Taft-Hartley proposals, has long advocated the complete repeal of Taft-Hartley and the restoration of the Wagner Act providing no unfair labor practices for unions. His bill, H. R. 4299, would make this possible.

Thus any optimism that Senate activity may have created for an end to the more serious abuses by professional unionists is not expected to carry over to the House, where all members will be up for reelection.

TAXATION

Substantial deficits are assured for both fiscal 1958 and 1959 by speed-up in existing spending programs and passage of new antirecession measures calling for huge outlays.

The built-in lag in receipts during the July to February period will further tighten the squeeze on the Treasury which will request that the debt limit, already increased from \$275 to \$280 billion, be raised again—probably to \$290 billion.

Despite reluctance of both the administration and congressional leadership to open the subject of tax reduction, chances are somewhat better than ever in favor of passage of a tax reduction bill.

Scheduled reversion of the corporate rate normal rate—from 30 per cent to 25 per cent—and of the excises on automobiles, cigarettes and alcoholic beverages will force a decision before June 30.

There is much discussion of possible changes in permissible depreciation schedules and practices. This reflects what appears to be belated recognition of the repressive effects of current depreciation law and regulations.

TRANSPORTATION

Highway contractors, equipment dealers, manufacturers and material producers can look with optimism toward the months ahead.

State highway departments are moving into high gear to spend the additional \$1.8 billion federal aid for highways the Congress pumped into the highway program for the fiscal years 1959 and 1960.

Four hundred million dollars of this must be contracted before Dec. 1 this year and completed before Dec. 1, 1959. This will be spent largely on resurfacing and widening existing heavily traveled highways. Much of it will be spent on rural connecting routes.

Most states anticipate no serious problems in providing the matching funds for this program. However, all but nine expect to borrow from the \$115 million federal fund.

Dirt should begin to fly on interstate highway construction. The two year period needed for determining route locations, conducting hearings, rights of way acquisition, preparation of plans and specifications are over for many miles of the system.

Economic aid is used by Soviet more to sow dissension with the West than for economic aid to weaker countries

of \$100 million went to Indonesia. It should be noted, moreover, that the actual disbursement of these credits is carefully spread over time, usually from four to 12 years.

In economic terms, this program is neither spectacular nor alarming. In these countries the need for a more balanced economic structure is real and urgent.

Several of the nations have for some time been receiving and effectively using technical and financial assistance from the West. Certainly, more assistance of this kind from another quarter could only be viewed as a welcome addition.

It is also clear that the Soviet Union possesses the resources and skills needed to contribute to the industrial development of the economies of Asia and Africa. Initially, too, the nations of the West found it rather heartening to note that the Soviet government had at last abandoned its position, assumed under Stalin, of denouncing every western effort in the sphere of economic development as "a plot against the very sovereignty of the weaker nations."

As the Soviet program unfolded, however, it became evident that the concept of competitive coexistence has a meaning all its own to the Soviet leaders. In such a competition they are evidently more intrigued by the possibility of some immediate, short-term gain that might help to tip the balance in their favor than by the long-time gains in well-being in the recipient countries. The manner in which they have pressed their largesse upon selected underdeveloped nations demonstrates that Soviet strategists are hostile toward any kind of balance. Their idea of competition seems to be to use any and all circumstances, including the economic distress of the weaker countries, to sow dissension among the nations of the world.

To that extent, foreign aid affords another platform for conducting political warfare on a global scale.

Evidence that the Soviet aid program is part of a broader operation aimed at undermining existing economic relations can be clearly seen

in the pattern of Soviet international behavior ever since it has declared itself persuaded by the argument that the stronger nations have a responsibility to aid their less developed neighbors.

The action may be illustrated by a few of the pages from this record:

1. The first Soviet extension of foreign aid in 1955 was toward a number of nations in Asia that were pledged to a neutralist policy in foreign affairs. The communist leadership considered these governments as most directly useful to their cause of keeping the free world divided, of preventing a solid front against future Soviet-sponsored civil wars of the variety launched by North Korea in 1950.

2. From the beginning of this drive, Soviet spokesmen were more concerned with impugning the motives of the U. S. and other western powers than with the needs of the less developed countries. Here is a sample of this line of attack as pursued by the then Soviet ambassador to India, Menshikov:

"Technical assistance which was being offered by the Soviet Union," he said in a public address, "was entirely different in character from the aid received from some other countries. Soviet aid was rendered only when it was desired and requested by a country and solely in the interests of that country. In such a case, the assisted country alone was the complete owner of the new enterprises built and equipped with the assistance of the Soviet Union, and of the products resulting from those new enterprises. The technical assistance was given on a friendly basis with no selfish aim on the part of the donor for a moderate payment and in some cases without payment at all."

3. Most revealing of the Soviet purpose is the speed with which it acted to throw its resources onto the beachhead in the Middle East from which to assail the position of the western nations. Soviet strategists delivered, in the fall of 1955, some \$280 million worth of arms to Egypt, on a deferred payment basis. No matter what was needed, Russia

was ready to oblige, so long as it offered a chance to penetrate a new region.

Thus, in Asia, for example, the main theme of the Soviet political message was aid in the interest of peace; in the mid-East, it was equally ready to help feed the flames of war. Nor is the cost of arms supplied (\$280 million) a minor expenditure, if we consider that the much-publicized Indian steel mill will cost Russia only \$115 million and that this amount will be doled out in installments over a five-year period. The difference in the outlay can only be explained by the fact that, at the moment, the opportunities for mischief-making against the West were far more promising there than elsewhere.

4. Whatever the context, the underdeveloped countries are always urged to regard their western neighbors with suspicion. Anything that helps to weaken existing ties between the former dependent nations and the West is considered a good stratagem. For example, in an interview with the Mexican newspaper *Excelsior*, in June 1956, the then Premier Bulganin was driving home the following lesson out of the Soviet primer on dissension:

"What the U. S. offers is assistance, while we offer collaboration—on mutually beneficial conditions, free of political intent, above all of any military involvement. . . . This collaboration is based on the idea of finding the best way to observe equality of rights without damaging the sovereignty of either of the parties."

5. The case of Indonesia also illustrates how Soviet interest is suddenly sparked whenever it finds an opportunity to intensify conflict. The USSR has had an economic aid agreement with Indonesia since September, 1956. To date, no economic goods of a peaceful character have moved under this agreement. All that was needed, apparently, was an incentive to act. The incentive came in January 1958, at the height of the anti-Dutch campaign in Indonesia. The Soviet Union quickly moved ships into several ports for sale or charter to the government, in the hope of placing the latter under political obligation to the communist party of Indonesia. The MIG's arrived in early May.

The pattern that emerges from the whole range of Soviet economic actions is one of active promotion of division, conflict, and war among the nations outside the Soviet bloc. In the area of foreign aid, in particular, the kind of activity that best recommends itself to the Soviet gov-



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Dumping oil and nonferrous metals may be a Red step to force trade concessions

ernment is one in which it can strike a self-serving posture as the disinterested benefactor and, at the same time, draw a contrast between itself and the West.

For this purpose Soviet leaders apparently regard the cut-rate loan as a highly promising weapon. It is simple, it bespeaks generosity and serves as a basis for labeling all opponents as usurers. The purely economic facts are less simple. Inasmuch as these are not cash loans, the interest rate is not decisive. What counts ultimately is the price of the goods and services obtained. The Soviet can more than make up for the low interest rate, and has on occasions, by padding prices.

On the other hand, if we accept the challenge on interest rates, the Kremlin spokesmen argue that they are not only generous but also influential.

Mikoyan boasted in his March 11 election speech in Yerevan that the Soviet Union can, in effect, compel the West to change the terms of its commercial relations throughout the world.

One of the areas where the Soviet ruling hierarchy is particularly eager to change the terms of commercial relations is in the production and marketing of petroleum. By all evidence, the Soviet government has singled out the large western oil companies as promising targets. By supporting every variety of anti-foreign movement in Asia and Africa, the communist leaders strive to make it more expensive for the oil companies to extract the product. At the same time, they try to force the major producers to sell more cheaply by disposing of their own oil in selected markets at cut rates.

It would be foolhardy, moreover, to believe that all this is merely a form of jockeying for a better commercial position. The stakes are much higher. In several regions, especially in the Mid-East, the Soviet leaders are obviously tempted by a chance to maneuver themselves into a position where they could, if they wanted, block the West's access to vital sources of oil.

In nonferrous metals, the Soviet trade monopolists have also shown that the normalization of commercial practices is not necessarily their

prime objective. In the case of one metal after another—aluminum, tin, zinc, platinum—the Soviet Union has acted to depress prices. The impact of this operation was serious enough to prompt the Canadian aluminum industry to apply to the Board of Trade in London for an anti-dumping duty on imports originating in the USSR.

So far, no one has been able to fathom the reasoning behind the Soviet action of forcing these surpluses on well supplied markets, partly in conflict with its own interest as a seller. Prices, it would seem, are not the determining factor.

If there is any explanation for such action other than poor sales planning and an urgent need of foreign exchange it may be this: "It is not nearly so important to gain approval as to inspire fear."

It is also conceivable that this line of action may be used as a bargaining counter. Should the outcry

against dumping become more serious, the Soviet Union can use this as a basis for suggesting a trade conference, where it could offer to negotiate the cessation of dumping against existing western security safeguards over exports to the Soviet bloc.

It is plain that the Soviet decision to force a commercial war upon the West springs largely from a sense of confidence that, in this type of contest, its own single-center control gives it certain advantages. Partly, too, the present Soviet aggressive behavior in world commerce is based on the substantial increase in the volume and variety of the Soviet trade potential. Soviet capabilities in trade have grown enormously since World War II.

On the export side only—the main source of Soviet purchasing power in the world market—the capacity of the USSR has expanded six-fold since 1938. This is in terms of actual physical quantities, not just money values. According to information published in November 1957, the value of Soviet exports in 1956 was \$3.7 billion; imports were \$3.6 billion.

This gain is not to Russia's complete advantage. The fact is she has gotten herself heavily overcommitted. First, the bulk of export

GROWTH OF SOVIET EXPORTS

	Thousands of tons	
	1938	Latest figures (1956)
Grains	2,356	3,526
Coal	471	6,171
Petroleum	1,530	11,020
Iron Ore	8	9,918
Manganese Ore	491	1,025
Iron & steel	74	2,017
Cotton	38	342
Flax	25	30
Asbestos	16	99
Machinery (Millions of dollars)	\$ 31	\$ 720
Lumber (Millions of board feet)	1,378	949

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REDS AIM ECONOMIC GUNS AT U. S. *continued*

Many commodities Russia now exports are goods that her people badly need at home

goods that the USSR places annually into world trade is consigned, for reasons of policy, to intrabloc distribution. Even here, available supplies are stretched thin to try to cover more than they really can. Thus, the good providers within the bloc, East Germany and Czechoslovakia, get the lion's share of Russia's grain exports; the others get what is left. The same is true of iron ore, semifinished steel, non-ferrous metals, crude rubber, or other vital supplies.

Furthermore, any number of the commodities Russia now ships to the world market are diversions from home consumption. Cotton is an example. Domestic production of cotton fabrics, the basic Soviet textile material, declined in 1956 by eight per cent. It rose a little in 1957, but was still below 1955. Yet, exports have continued to rise. The foreign trade ministry, in fact, boasted that Russia, with a volume of 310,000 metric tons, is now the third largest exporter of cotton, after the United States and Mexico.

Similarly, iron ore exports are working a strain on domestic supplies. Because the trade monopoly consigned nine million tons of iron ore into exports, the Soviet steel industry in 1957 had its worst year since the war. Last year's steel figure was less than five per cent above 1956, despite generous new capital investments.

Exports of lumber are likewise in conflict with an acute need at home.

A recent Soviet announcement that in 1956 the USSR exported automobiles to 23 countries would not lead the reader to suspect that this operation totaled 22,000 vehicles, valued at about \$20 million. The country's total production that year came to 98,000 passenger cars.

In machinery, too, the Soviet export position is not without complications. In the first place, by its own figures, the USSR was a net importer of machinery in 1956: \$960 million of imports as against \$720 million of exports. Another element in this picture is the fact that 75 per cent of the imported machinery came from the satellite economies—the very area in which the USSR claims to function as a source of industrialization.

Two of the satellites, East Germany and Czechoslovakia have been

providing Russia lately with an annual flow of machinery worth about \$700 million, 70 per cent of this from East Germany. For the Soviet economy, by and large, this source of supply has plugged up temporary gaps in output, correcting mistakes in planning. For that reason, these countries are eminently useful on the more political side of the trade operation. For example, at the height of western export controls, Russia has been able to order these two satellites to specialize in deficit machinery. Subsequently, in connection with the drive to industrialize China, these two territories have been employed to diversify and support the Soviet contribution in equipment to China. More recently, the Soviet trade strategists have been able to use the machinery imports to relieve their own industry of the strains imposed upon a

nical assistance to genuinely neutral countries such as India, Burma, Yugoslavia; in another line of action, it has tried to open a parallel commercial channel toward weak nations by way of supplementing its political and military pressure upon them. The fact remains that, in the sphere of straight commercial operations, the record has been one of large promise and meager performance. Soviet action has not been capable of matching either its extravagant promise or the official image of the commercial capacity it presents to the world. The shortfalls in this area have been apparent.

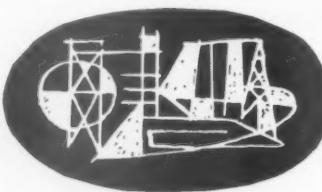
The Soviet government is, in fact, anything but a natural trader. It is not only slow and cumbersome, it is also inflexible in its payment practices. A nation which sells to the Soviet does not earn currency which it is free to use as it chooses. It earns the right to accept Soviet goods of equal money value. Often, this forces a country to take second choice as far as return goods are concerned.

Neither the ponderous method of trading through government bureaus nor the rigid devices of bilateralism are best suited to balance the needs of producers and consumers. The mechanism they provide is not sensitive enough to carry out day-to-day commodity adjustments on an international scale.

It requires no special powers of clairvoyance to foresee that, for the decade ahead, wherever the nations remain free to act on their choice, they will deal with the profit-motivated trading communities who possess the needed experience in building and maintaining commercial good will abroad.

All this, however, cannot be expected to come about automatically. We may fully expect that the individual trader from the U. S. and the other market-economy countries will continue to apply his best effort to providing the goods wherever they are needed, to give good quality, a fair price, and dependable service.

The danger is that his effort will not be fully productive unless he can count on the firm support of his business and national community in the form of a sound trade policy. In parts of the world, he will most assuredly come up against blocked sources of supply and rigged markets as a by-product of the Soviet effort. If we wish to see the individual business effort effective, the entire community will have to take international trade more seriously. We will have to learn to regard the private trader as our representative in an important area of world cooperation.—LEON M. HERMAN



possible excessive demand for machinery exports from the rest of the bloc and from the underdeveloped countries.

There is no lack, therefore, in the Soviet commercial arsenal of material supplies. Nor is there any lack of will or determination to exert pressure against vulnerable segments of the world economy. There is every reason to expect a more intensified effort to exploit any and all potential opportunities for reaping political benefit. The weight of Soviet economic force will be thrown into the balance of every precarious situation. The more mature industrialized nations of the West as well as the less experienced will be invited to cure their temporary economic ills by means of the magic of a particular Soviet formula.

It is possible, however, to read too much into the record of recent Soviet international economic operations. This record has consisted, in part, of contributing, along with other nations, financial and tech-



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It is difficult to delegate power to make decisions at lower levels

"separately administered" phrase is sand in the gears, this section is coarse gravel. It has been used often, by each of the services, to defend its right to spend tax money on obsolete activities. It is a clear congressional charter for overlapping and duplication. It encourages the frantic and costly scramble among the services to gain control over new weapons.

An example was the rivalry between the Army and Air Force over the development of an Intermediate Range Ballistic Missile. Each service advanced a plausible claim that its assigned mission required such a weapon. So the Army went ahead with its Jupiter, the Air Force with its substantially similar Thor. Some military experts estimate that this little game of "it's mine, it's mine," cost the taxpayers \$500 million.

It has been suggested that the Jupiter-Thor situation, and many other expensive conflicts between services, could have been headed off by prompt, firm decisions at the top. Indeed, it is widely believed in Washington that the basic problem in recent years has been, not a lack of power in the office of Defense Secretary, but the reluctance of former Secretaries to use the power they had.

One reason why Mr. McElroy has made such an impression on the capital is that he has displayed decisiveness from the time he took office. Could he not, by continuing to make firm decisions, dispense with the need for new legislation?

"If all of the decisions could come up to the Secretary," he replied, "practically all matters could be settled. The fuzziness of authority in the present law causes trouble when you try to settle disputes at lower echelons. It makes it difficult to delegate real authority—to achieve decision-making by policy statement rather than on a case-by-case basis.

"One serious difficulty is that many issues never get to the Defense Secretary at all. They are settled at a lower echelon by trade-off compromises, because the executives at that level are unable or unwilling to chase the problem all the way upstairs to force a decision."

Beyond these essentially administrative difficulties is another problem which Secretary McElroy and President Eisenhower regard as the greatest single shortcoming of the

present defense organization. The congressional concept of unification, reflected in existing law, is a confederation of largely autonomous land, sea and air services, somewhat loosely coordinated at the top by the Defense Secretary and the Joint Chiefs of Staff. Each service now does its own planning, designs and develops its own weapons, trains its own men and, in general, prepares to fight a possible war according to its own concepts.

In theory, all of this preparation is done within the general framework of an over-all strategic plan laid down by the Joint Chiefs of Staff. Actually, the Joint Chiefs, limited by law to a staff of 210 officers, can do little more than pass on, and attempt to harmonize, detailed strategic plans sent up to them from the individual services.

President Eisenhower, who has had a good deal of personal experience in strategic planning, is convinced that this whole system is upside down. Instead of starting out with a military problem—the global defense of the free world from communist attack—and working down to the kind of forces and weapons needed to cope with it, our strategic planning begins with the existence of separate land, sea, air and amphibious services, and tries to evolve a compromise under which each can contribute something—not necessarily the thing most urgently needed, but something anyway—to the overall defense task.

The Administration's proposals for overhauling the defense machinery are not as drastic as some politicians have depicted them. But neither are they as mild as Administration leaders have sometimes implied in defending them against congressional attack. If all, or even a substantial part, of the requested legislation is approved, there will be a basic realignment of the U. S. military structure.

Virtually all operational forces of all the Army, Navy, Air Force and Marine Corps would be removed entirely from the command jurisdiction of their respective military departments, and organized into combat teams. Depending on their assigned missions, these field forces would be unified land-sea-air commands, somewhat similar to the present Pacific and European Com-

mands, or single service outfits, like the Strategic Air Command. In either case, they would be directly under the authority of the Secretary of Defense and the Joint Chiefs of Staff.

The Chief of Naval Operations, who now has legal authority to withdraw naval forces from a unified command without notifying anyone, would no longer have that power, even theoretically.

If enemy action were imminent, the alert would flash directly from the high command to the operational forces in the field, instead of being routed through the military departments as at present.

"This change is tremendously important," Secretary McElroy says. "In any future emergency, our warning time may be reduced to 15 to 30 minutes. We cannot afford to have the chain of command meandering around."

Besides the over-all command of operational forces in the field, the Joint Chiefs of Staff would assume, in a much more realistic sense than now, the responsibility for basic strategic planning. They would initiate war plans, rather than review the piecemeal plans handed up from the individual services.

To enable them to perform this larger role, the Administration has asked for several changes in law. One would repeal the present limit of 210 officers on the size of the Joint Staff which serves the Joint Chiefs. The Joint Staff would be expanded to about 400 officers and given an operations section. This would make it a general staff, of the same type that the Army and Air Force have had for decades. But nobody in the Pentagon uses the term "general staff" since it is re-



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Secretary of Defense

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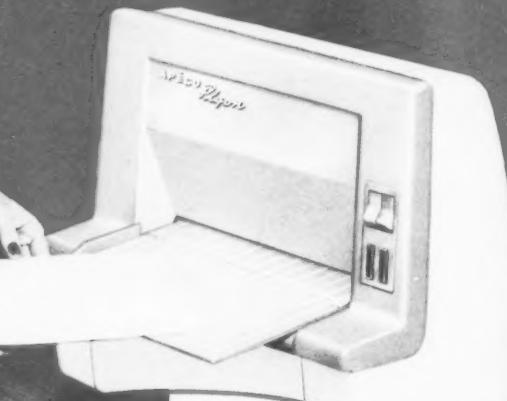
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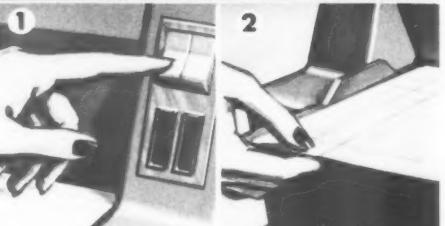
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DEFENSE NEED

continued

Separation of the services is not threatened

garded in Congress as an obscene expression, always described by the phrase "Prussian type."

The Chiefs of Staff would also be empowered by law to delegate virtually all of their present functions as military heads of services to their Vice Chiefs. This would enable them to devote most of their time to the work of the Joint Chiefs.

The Departments of the Army, Navy and Air Force, relieved of most operational forces, would remain in existence and would continue to have major administrative responsibilities. Their job would be to support the operational forces by recruiting and training personnel, by developing, procuring and moving supplies, by providing essential services of transport, communications, research and financial management.

The abrasive phrase that says the military departments are to be separately administered would be deleted, if the Administration gets its way. And the Defense Secretary would have explicit authority to "transfer, reassign, consolidate or abolish" functions to eliminate duplication and to make for more efficient operation.

But the three departments would not be merged, nor would any one of them be reorganized into a hollow shell. The proposed law specifically forbids a merger, and it says that no change in a department's functions can become effective without 30 days notice to Congress—which could intervene to halt the gutting of any Department.

Moreover, neither the President nor Secretary McElroy wants to do away with the military departments.

"This operation is so big that it would be simply unmanageable without at least the degree of decentralization represented by the three military departments," Secretary McElroy says. "If we did not decentralize along service lines, we'd have to invent some other divisions. And it is infinitely better to keep the going concerns we've already got."

In reply to a question, Mr. McElroy conceded that effective decentralization of administrative functions is one of the prime organ-

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izational needs of the whole military establishment, and that there is little in the present reorganizational plan which looks in that direction. On the contrary, some critics contend that the main effect of the reorganization proposals will be a greater centralization of power in the already swollen civilian bureaucracy of the Defense Department.

Secretary McElroy, who learned at Procter & Gamble the importance of deep delegation in a big organization, explained that "we haven't got that far yet." No executive can delegate authority intelligently and effectively until it has been made absolutely clear that he possesses it.

Besides, there are rather sharp limits to the amount of real delegation that Congress and the public will permit in any government activity. As long as the head of a department is held personally accountable to investigating committees for any mistake made at a field installation 5,000 miles away; and as long as the taxpayers are willing to spend \$10 in auditing and reporting costs to avoid any possibility of a \$1 fraud in local procurement, there will never be in any government agency the philosophy of the calculated risk which makes genuine decentralization possible in a business organization.

The power to transfer, consolidate and abolish functions would be meaningless unless the Defense Secretary also had authority to shift the money voted by Congress to perform those functions. At present, Congress votes appropriations directly to the individual military departments for specific purposes. The Defense Secretary's power to divert funds from one agency or one purpose to another is extremely limited. If a sudden change in the international situation or in weapons technology develops, he has no room to maneuver unless he goes back to Congress to get a new appropriation.

Any businessman who doubts that this is a serious handicap, Mr. McElroy said, "should picture for himself what it would be like in a corporation if management didn't have authority to shift from an unpromising field of spending into a promising

(continued on page 56)

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How Puerto Rico's remarkable backs a U.S. manufacturer's



Puerto Rican worker performs a delicate assembly task at the Weller Electric factory in Bayamón. Basic training was aided by the use of slow motion films, which the staff voluntarily attended in their spare time. Almost

every Puerto Rican is proud and enthusiastic to be employed in factory work. Absenteeism at the Weller plants in Puerto Rico averages less than two per cent. The girl above is completing the assembly of a soldering gun.

labor efficiency unusual guarantee

President of the Weller Electric Corporation credits the reliability of his precision products to the exceptional dexterity and enthusiasm of his Puerto Rican workers.



MR. CARL WELLER,

THE Weller Electric Corporation now has three separate operations in Puerto Rico. Between them, they make the famous precision products that you see in the photographs on the right—a soldering gun, a portable jig saw and an electric sander.

Each one of these power tools is guaranteed for one year. *This is an unusual guarantee in the power tool industry.* The standard period is only ninety days.

Weller profits in the first month

Mr. Carl Weller, president of the Weller Electric Corporation, pays tribute to his Puerto Rican staff for helping to make his unusual guarantee possible.

"Puerto Rican workers," he says, "have proved beyond doubt that they can work to my precise specifications and to my timetable. They learn quickly and apply themselves enthusiastically to any new task."

It is significant that Weller's operation in Puerto Rico started making a profit from the very first month that it was set up.

Weller Electric established their first Puerto Rican factory in Bayamón in 1950. It started with twenty employees. There are now three separate Weller plants in Puerto Rico—one for each product. These operations include making the parts—electrical transformer winding, for instance—as well as final assembly. In the past

eight years, the company has expanded its payroll and the size of its plants by over four hundred per cent.

The original Puerto Rican manager, José Rodriguez, is now President of the expanded Bayamón factory. Supervision and inspection, as well as labor, is reliably provided by Puerto Rican personnel.

Enthusiastic co-operation

Puerto Ricans are naturally proud that firms like the Weller Electric Corporation are now so firmly and profitably established in this ebullient Caribbean Commonwealth.

It speaks volumes for the enthusiastic co-operation that Puerto Rico offers to all new industries. The Puerto Rico Industrial Development Company (PRIDCO) stands ready to offer every possible assistance to manufacturers who are looking for suitable plant sites or factory buildings.

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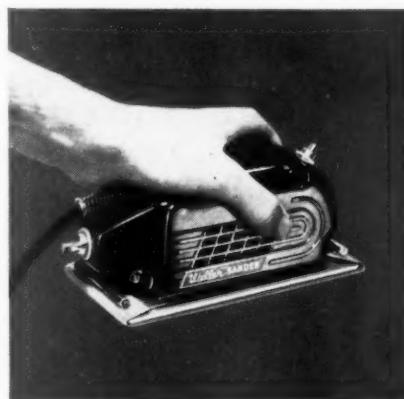
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DEFENSE NEED
continued



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Duplication can
waste both money
and manpower

ing one except by some cumbersome method such as conducting a referendum among the shareholders."

President Eisenhower has served notice that he will present next year's defense budget to Congress in a form that gives the Defense Secretary some modest flexibility in the use of appropriated funds.

Secretary McElroy says he does not need or want a blank check. Authority to transfer 10 per cent of the military appropriations would be more than adequate. The actual amount of transferability sought next year may be only five per cent.

One vital area in which Mr. McElroy wants greater control over funds and functions is the development of new weapons. He attaches tremendous importance to a provision of the proposed legislation which would establish a new civilian office, "Director of Research and Engineering," immediately under the Defense Secretary and on a par with the secretaries of the three military departments.

This executive—the Secretary hopes to draft a really top man from private life for the post—would have sweeping authority over all research and development programs in the Defense Department. He would be empowered to cut off unpromising efforts, to release promising ones for production, to eliminate duplication of effort or to order new work in a field where a lack has been detected. Most of the actual development work would continue to be done by the three military departments, under his supervision, but the Director could set up projects under central Defense Department management if he saw fit.

As a man who believes that aggressive, fast-moving research is essential to survival in the soap industry or in a global cold war, Mr. McElroy is satisfied that this one reform would lead to a sharp reduction in the lead times on new weapons and would save hundreds of millions of dollars every year.

"It's not only the money," he said. "Nearly half of America's scientists and engineers are now working on defense projects. We must be more economical of talent as well as

funds. We just haven't enough highly capable men to afford wasting them on dead-end and duplicating efforts."

He agrees that there can be such a thing as constructive competition in weapons development. One example, often cited, is the Navy's success in developing a superior solid fuel missile, the Polaris, while the Army and Air Force were concentrating on cumbersome liquid fuel propellants.

"But we can afford duplicated effort only on a few vital projects," Secretary McElroy says. "It takes a tremendous urgency to justify it. It just doesn't make sense to spend money and manpower on such things as all three services conducting basic research in communications equipment."

Secretary McElroy recognizes that some long-overdue reforms in Pentagon machinery can be carried out without new legislation. He has already begun some of them. For example, he has issued orders calling for a radical reduction in the more than 200 interservice boards and committees which now clutter up the organizational structure and serve as roadblocks to executive decision at every level. His approach to this problem was characteristically direct: Any committee that cannot positively justify its continued existence will be abolished automatically by July 1.

He has also let it be known that he does not approve of eager beaverism among the Assistant Secretaries, whose ever-proliferating offices constitute the civilian superstructure of the Defense Department. In the past, some of these officials have been unable to suppress a desire to meddle in the most trivial decisions of subordinate military departments in an effort to achieve "uniformity of administration." The absurd length to which this was sometimes carried is reflected in one edict from the Assistant Secretary of Defense for Property Management which instructed military installations that "vegetative areas should be mowed at the maximum height consistent with current use." In other words, "cut the grass when it gets too high."

In the long run, the most important single change in the way the Pentagon is managed is likely to be the indefinable but massive impact of Mr. McElroy's own personality. The word is already seeping through the Pentagon that there is an executive in the front office who is willing to make decisions, crisp, clear and fast. What he needs is freedom to manage.

—LOUIS CASSELS

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WAGE PUSH

continued from page 30

Wage inflation is continuing during recession

Chamber of Commerce, says built-in cost increases merit a second look if we are serious about restoring sanity to wage negotiations.

"Any company which puts itself on a rising cost limb may find that its competition (existing or new) is in an excellent position to saw off that limb," he warns, pointing out the dangers of long-term contracts which commit a business to steadily rising costs in a dynamic economy such as ours that involves persistent change.

Dr. Schmidt points out that statistics on the size of predetermined wage increases and the number of workers covered do not take into account fringe benefits, the spill-over effect of the long-term contracts on other employees and other industries, and their effects on the general bargaining climate which prearranged contracts help to generate.

T. O. Yntema, an economist and vice president-finance of Ford Motor Company, told the Joint Economic Committee of Congress that, since 1955, we have had "a persistent cost-push inflation brought about by the monopoly power of the unions."

Because of this power, wage inflation apparently is going to continue even during this recession as well as after recovery when, he says, "The monopoly power of unions will certainly drive up wages faster than productivity and will cause prices to rise."

The net effect of this power, in Mr. Yntema's opinion, is to keep us from acting as boldly and as freely on the monetary and fiscal front as we would like because organized labor will seize every opportunity to drive up wages and, hence, prices.

"The No. 1 economic problem of this country is wage inflation, rooted in the excessive monopoly power of unions," he believes. "If it were not for the present threat of wage inflation, we would act boldly and safely to end this recession and get back to prosperity in short order."

The scope of the problem is underscored by the predicament of the steel, aluminum and railroad industries and pleas from economic experts that the increased steel wage costs due July 1 be deferred.



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Consider the plight of the aluminum industry, which had to cut the price of aluminum by two cents a pound to meet foreign competition, but will have to meet higher wage costs on Aug. 1 similar to those in steel.

In a similar situation are the railroad companies that have cut salaries on nonunion personnel 10 per cent but will have to increase wages of union employees seven cents an hour as well as make adjustments for the rise in the cost of living.

For the last year of the three-year steel agreements, the industry—although operating at less than 50 per cent of capacity and consequently with lower productivity and higher unit costs—is committed to granting a general wage increase and other improvements that will raise labor costs about 20 cents an hour.

In addition to base rate increases averaging about nine cents and a likely three cent cost-of-living rise, increases are also due in Sunday and holiday premium pay, paid vacation allowances and shift differentials.

These increases will add costs in steel which will freeze if not increase the cost of automobiles and many other goods made with steel, says economist J. A. Livingston, who wrote in his syndicated column, "The Business Outlook."

"It's a bad deal for the union, the steel industry, and you and me. It ought not to go through, unmodified."

More significant is the hold-the-line suggestion of Harold J. Ruttenberg, former research director and economic adviser of the United Steelworkers, which holds the major steel wage contracts.

Mr. Ruttenberg, now a customer of the steel industry as president of Stardrill Keystone Company, believes a one-year freeze on wages and two-year freeze on prices, with a one-year extension of the contract to July 1, 1960, is essential "to pull the steel industry out of the recession into which it has receded."

He says the present steel wage formula of automatic increases and cost-of-living adjustments should be scrapped and joint negotiations begun to develop a new formula for the next contract under which increases would be granted as productivity rises.

In letters to USW President David J. McDonald and Roger M. Blough, chairman of United States Steel Corporation, Mr. Ruttenberg said that they have "a responsibility to change fixed policies with changing times and not inflict on our country a wage program that was formulated in 1956 and will throw more people



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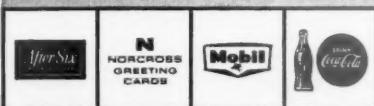
WAGE PUSH *continued*

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Some unions are cooperating to cut costs and improve production methods

out of jobs this year unless it is altered as suggested."

Industry figures illustrate how far productivity—or output per man-hour—has lagged behind the rise in steel wages. From 1939 to 1957, steel productivity increased 61.3 per cent while average hourly earnings rose 217.9 per cent. When the cost of pensions and other benefits are included, the wage rise was 233.7 per cent. National productivity rose about 24 per cent.

In 1956, productivity rose less than one per cent. Last year it actually dropped 1.4 per cent, according to preliminary figures. No appreciable rise is expected this year because of reduced production and fixed overhead which add to unit hours.

The industry points out that it suffered a five-week strike in 1956, and five costly strikes since World War II, in an effort to hold the line against the union's inflationary wage demands. In each instance it has been under pressure of the government, steel users and the public to come to terms with the union.

Mr. McDonald has publicly rejected any suggestion that the union forego the July 1 increases as a contribution to economic recovery and increasing employment opportunities in steel. The United Steelworkers claim some 250,000 members are unemployed and another 350,000 are working short weeks.

The USW president said the union regards its labor contract a "sacred thing," and that to consider it as anything less than that would "result in the worst kind of labor-management relations."

This is contrary to labor's views as expressed by Walter P. Reuther, chairman of the AFL-CIO Economic Policy Committee, after his UAW signed five-year contracts with major automobile producers in 1950, a few weeks before Korea sparked a rise in wages and prices.

In pressuring automobile management to reopen the contracts, which it did in 1953, Mr. Reuther warned that unless management viewed a labor contract as a "living document" that is flexible enough to meet unforeseen developments, the union would never agree to another long-term contract.

Some union leaders and unions accept the principle that this is no

time for higher wages. On the eve of the AFL-CIO convention last December, Richard J. Gray, president of the AFL-CIO Building Trades Department, proposed a voluntary moratorium on wage increases in the construction industry during 1958.

The International Woodworkers of America, faced with heavy unemployment in the northwest lumber industry, last month voluntarily dropped demands for a 25-cent hourly wage increase and offered to extend the present contract.

But over-all AFL-CIO policy, adopted by the convention, is that the economic slump makes it "doubly imperative" that workers get sizable wage increases to bolster consumer buying power and stimulate an upturn.

"Any easing of union negotiated wage gains would be a serious blow to attempts to restore and maintain a healthy expanding economy," says the AFL-CIO convention resolution on bargaining goals.

The AFL-CIO research director, Stanley H. Ruttenberg, does not subscribe at all to the views of his older brother, Harold, that now is

Built-in wage boosts coming up

	Cents per hour
July Basic steel	9
	Copper mining
Aug. Aluminum	9
Sept. .. Electrical	7
	Meat Packing
Oct. Can Manufacturing	7
	East Coast docks
Nov. Railroads	7
Feb. Trucking	7
Apr. Aircraft	7

NOTE: Long-term contracts with deferred wage increases expire this year in automobile, flat glass, canning and farm equipment industries.

Above figures do not include cost of fringe benefits or cost-of-living adjustments which sometimes come to as much as the hourly pay increases.

the time to hold the line on wages and prices.

The Collective Bargaining Report, issued monthly by the AFL-CIO Department of Research, which Stanley Ruttenberg heads, gives advice like this to union negotiators in the March issue devoted to the significance of a company's financial position in collective bargaining:

"From a broad economic standpoint, larger rather than smaller wage raises are needed during an economic recession. . . .

"Even if the employer's business has been significantly affected, has the business slump been so severe as to threaten his continued existence? If the slump merely means a downturn in the usual rate of profit, unions do not consider it as warranting limitation on otherwise justified wage increases. . . .

"A downturn in past months does not of course limit a company's ability to pay higher wages in future months of improved business. . . .

"Is the company's problem really a wage problem, or does it require action on some nonwage matters instead?"

Some companies are finding it easier in these times to get union cooperation in eliminating waste and wasteful practices and reducing non-wage costs in other ways.

Two examples are in the aluminum industry. As many as 12 unions in Reynolds Metals Company plants are cooperating on joint committees to help cut costs, improve sales and make jobs more secure. The committees are also searching for new product ideas and better production methods and ways to eliminate waste and dead time.

More dramatic is what happened at the Bristol, Pa., plant of Kaiser Metals Products Inc., where the company inherited the contract of UAW Local 130 when it bought the business.

The contract included a number of costly features not common in other contracts, such as company-wide seniority that involved multiple changes of jobs on layoffs and pay for the time employees spent on union activities. The company had tried unsuccessfully to eliminate some of them.

When a third year of severe losses was in prospect for 1958 despite stringent economy measures, the board of directors decreed that the company had to get in the black or close out the business.

The management notified the union that, unless the contract was modified in certain respects to conform to the contracts in similar industries in the Philadelphia area, it would have to begin phasing out the

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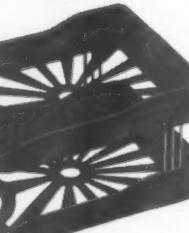
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WAGE PUSH continued

business. This it did after the union rejected the idea. About 50 of the 1,200 employees were laid off as the first step.

After a new Industrial Development Corporation, formed by civic leaders in Bucks County, arranged a number of meetings, the union membership—convinced that the company was not bluffing—almost unanimously approved a revised contract.

By eliminating some of the contract frills, a spokesman said, the company expects to save about \$500,000 this year. With further operating economies under consideration, it is expected to wipe out the projected loss.

The major contract changes:

- Reduced extra pay for work on night shifts.
- Eliminated pay for time employees spend on union business and grievances.
- Streamlined the grievance procedure and reduced the number of union stewards and committees.
- Allowed the company to assign employees to temporary work outside of their regular classification with the right to combine, change or eliminate duties.
- Improved the seniority system by restricting movement of employees from job to job.
- Eliminated excessive incentive bonuses.

END

UPTURN WILL COME

continued from page 33

economy growing and to prevent large-scale unemployment. When it became evident that business activity was decreasing and the inflationary pressures were receding, the Administration began to take steps to check the downward trend.

1. In November the Federal Reserve Board reversed its credit policy, abandoning the policy of active credit restraint. The discount rate was lowered in four stages from 3½ per cent to 1¾ per cent, reserve requirements were lowered in several successive stages, and the negative free reserves of the commercial banks were converted into positive free reserves—in contrast to the situation in 1956-57. Their excess reserves exceeded their borrowings at the Federal Reserve banks. The

availability of bank credit was, therefore, materially increased. Money rates, notably open market short-term rates, dropped sharply, and the prime rate charged by commercial banks to their largest customers was reduced from $4\frac{1}{2}$ to $3\frac{1}{2}$ per cent.

2. The government increased total defense expenditures and accelerated placement of contracts for military goods and construction.

3. Legislation was passed to stimulate home and highway construction. The no-down-payment mortgage for veterans was reestablished and rates of interest on government-insured and guaranteed mortgages were increased to attract more private funds into housing. The Federal National Mortgage Association reduced the fees charged lenders from whom it buys mortgages, and its authority to buy mortgages was substantially increased. Appropriations for military housing and slum clearance were also raised. A new \$1.8 billion highway construction bill was passed by the Congress and signed by the President.

These measures and others that will be taken in the future are certain, after some time lag, to have an impact on the economy. For example, Congress is considering a bill to increase unemployment insurance benefits. Whether or not the Congress will reduce taxes on individual and corporate income is as yet uncertain.

There is considerable controversy, both in and out of government, as to whether it would be more desirable to reduce taxes now or to put more emphasis on public works.

An across-the-board tax reduction is likely to be more helpful in combating the recession than large-scale public works. Lowering of taxes would have an immediate effect in expanding disposable personal income of all taxpayers. It would also have a favorable psychological effect which would be felt promptly throughout the economy.

It should be borne in mind that, at least to some extent, the recession is aggravated by the pessimistic attitude of many people. In contrast, the effects of a public works program on the economy are slow and are felt primarily locally. Moreover, highway construction creates only a limited demand for labor and materials.

The outlook:

With this background in mind it is possible to consider the outlook for business for the remainder of the year.

In all probability the decline in business will bottom out during this

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UPTURN WILL COME

continued

Fiscal deficits
could stimulate
inflation fears

summer. This will be brought about mainly by accelerated defense expenditures and increased construction, stimulated by the recent legislation and by seasonal factors which usually play an important part in the spring.

In a few months the liquidation of business inventories should have been largely completed. In general, the nondurable goods industries such as food, drugs and apparel should do relatively well. The durable goods industries, notably automobiles and producers' capital goods, are, however, not likely to witness a quick revival.

During the summer, unemployment may be expected to remain heavy and the propensity to save and to repay debt to continue.

The end of the decline in business activity will not mean that the economy will immediately resume its upward trend.

During the summer, business activity, affected by vacations, is usually in the doldrums. Moreover, there will be no new factors in the private sector of the economy to stimulate business.

Toward the end of the year, however, some improvement may be anticipated.

By that time the process of restocking business inventories, including durable consumer goods, will have set in. By that time also, the effects of the measures taken by the government will be fully felt. Housing starts should be larger than a year ago; public works, notably road building, will increase materially.

The chances are that the demand for durable consumer goods will also improve.

However, no sharp upturn in business, such as that witnessed during 1950 and 1955, may be expected in the months ahead. Capital expenditures by corporations are not likely to increase in 1959.

On the contrary, such expenditures will probably be even lower than in 1958.

Furthermore, even though the supply of mortgage money will increase and veterans will again be able to buy homes without down



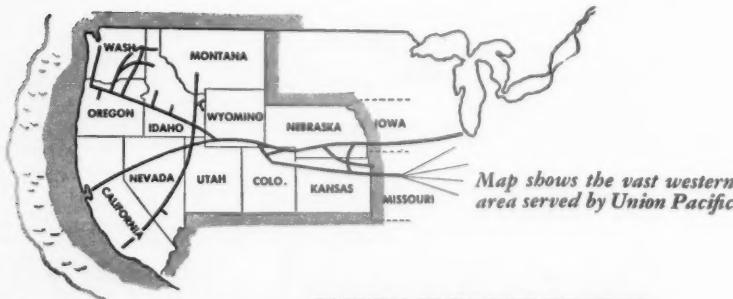
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payments, a home building boom of the magnitude of those witnessed in 1950 and 1955 is not likely. Family formations in 1959 will still be relatively small and, more important, the rise in the cost of housing has outstripped that of family income. Many families today are not in a position to pay the price of new homes. It is also not likely that the demand for durable consumer goods will be as great as in 1955. Finally, in contrast to 1955-57, exports are not expected to show any expansion in the near future.

Large-scale intervention by the government, which might create a deficit of \$10 billion or more for the fiscal year 1958-59, could revive the fear of inflation. A deficit of this size would have to be financed largely through sales of Treasury obligations to the commercial banks, which would increase the money supply.

Such an inflationary development could have a sharp impact on the equity market as well as on the psychology of consumers and corporate management. Both would try to hedge against inflation by anticipatory buying, which would increase sales and production. Thus, large-scale government deficit financing could have only a temporarily favorable effect on business and would further aggravate the maladjustments that have crept into the economy.

It would renew the spiral of wages and prices and lay the foundation for a much sharper recession later on.

Under present conditions, therefore, massive intervention by the government is not only not necessary but undesirable.

The economy as a whole is sound. The population is increasing at the rate of 3 million a year and, despite the decline in business activity and the rather sharp rise in unemployment, nearly 63 million people are still employed in civilian occupations.

Disposable personal income has remained high and the economic security of the people is substantial.

After a 10-year boom, interrupted by only two short breathing spells, a recession of some proportions was to be expected. Although the economy during 1958-59 may be operating somewhat below the 1956-57 level and unemployment may be larger than in any other postwar period, the longer-range outlook is as bright as ever.

After a period of perhaps 12 to 18 months, during which the economy will readjust itself, the upward trend will be resumed and business activity will reach higher levels than ever before.

END

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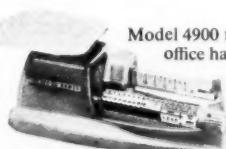


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HOW TO UNDO A MISTAKE

They happen to all businessmen, but you don't need to be caught short. This plan can help

EVERY EXECUTIVE IS SURE to face the problem of changing his course or undoing a mistake from time to time. Yet no other recurring business situation gets so little attention or planning.

The modern study of advanced management techniques has put all the emphasis on good decision-making. That's as it should be, of course.

But no matter how carefully plans are made, no matter how fine the decisive judgment, a certain percentage of the new directions any business takes will prove to be dead-end streets. Sometimes even the soundest decision becomes a boomerang because of a totally unexpected sequence of events.

One well managed corporation has been shaken to its foundation recently because several major plans suddenly went wrong. In each case, no fault could be found with the project, but several haphazard factors—a key man's heart attack, a major research discovery by a competitor, a temporary dip in sales volume—combined to plunge this company into serious trouble.

"I think our worst enemy was too much good for

tune over the past 10 years," one of the firm's officers said. "The problems that fell on us suddenly were not really so enormous. But we had been advancing for so long, we didn't know how to retreat. Since you can't have a two-platoon system in business as you do in football, I wish we had kept practicing our defensive plays all along, instead of having to learn on the run."

A pattern for undoing error should be a regular part of every businessman's thinking, something he keeps stored in the back of his mind for occasional use. Although details will vary with the nature of the error, the course of necessary action will fall naturally into three phases:

- Laying the groundwork for change.
- Timing the change.
- Handling the unforeseen error.

There's nothing defeatist about having such a plan—any more than skill in handling customer complaints is a sign of pessimism. There are two major reasons for having a standby program for use when a decision must be changed, and neither represents negative thinking:

1. The moment when a mistake is realized is almost always a time of pressure. The greater the error, the more acute the crisis. Sudden hunches are always suspect, and particularly so when an alarm bell has sounded. It's safer to know in advance what to do in case of fire.
2. Knowing that a move can be reversed, being familiar with the point of no return and the toll that a change of course would exact, actually promotes aggressiveness. It is the subconscious feeling that decisions are almost irreversible that tends to shackle the decision-making process and to encourage undue timidity.

Laying the groundwork

The best medicine is preventive medicine. No one challenges the importance of preventing business reversals just as often as possible. The rules of good decision-making, which stress the careful evaluation



of facts and the logical progression to an unemotional decision, are invaluable to the executive.

Moreover, almost every manager can remind himself oftener that tomorrow's decisions should not be based on today's conditions alone. A new plant is started, a trainee is hired, a new product is planned. By the time each one is ready to become effective, the situation may be entirely different. That is the basis for decision, not the status quo.

But because this preventive therapy is not infallible, a second best medicine should be kept in the business leader's top right-hand drawer. This is the kind that dilutes the effect of an ill even when it cannot prevent it entirely.

This means making decisions that foresee the possibility of error or of changed circumstances. It means preparing for a possible change of course without obscuring the main goal.

A trader in wheat, securities or foreign exchange regularly uses the technique of hedging to keep possible losses from becoming disastrous. True, his profit opportunities often are reduced. But he can live with this as a kind of insurance premium that prevents any single error from wiping him out.

The hedging technique can be carried over into more common business situations but its use is generally unconscious and far too infrequent.

A leading paper products company recently appointed a topflight man as assistant to an executive whose health is questionable.

This is hedging: paying more than the job demands today as insurance that a good substitute will be on hand in case of emergency.

If a manufacturer refuses to accept advance orders for more than 95 per cent of what he thinks will be his maximum capacity, he is—in a sense—hedging against the possibility of accidents or other slowdowns. His profit may be less than its full potential, but he is assured of keeping his commitments. Or he may be willing to gamble the extra five per cent in order to reserve it for some new business opportunity that has not yet crystallized.

Techniques such as these are applicable to many of



our everyday business decisions. They bridge the gap between the ideal decision and the regrettable one.

Here is a procedure that will actually improve the quality of your company's decisions while providing insurance against reversals.

Suggest that each of your executives go over these checkpoints as a regular part of his decision-making routine:

- What can go wrong with this plan?
- How serious would each of these occurrences be?
- What can be done to lessen the possible impact of each one?
- Is the cost or disadvantage of providing these hedges compensated by the benefits they can give?

To take a practical example of this procedure in operation, let's look at a decision that represents no major policy change or great capital investment. What could be more prosaic than the installation of new fluorescent light fixtures? This, we'll suppose, is to be done during summer vacation when the company will be on partial schedule and inconvenience will be at a minimum. But asking himself what could go wrong, the office manager faces the possibility that the proposed new fixtures, which are spaced differently from the existing ones and intended to provide more light, may be opposed by some of his employes when they are in actual use.

This would be reasonably serious because it could be remedied only by expensive changes. What can be done as a hedge?

There are two possibilities: Only part of the office might be converted during vacation and if that proved successful, the rest could be done. Or, the new fixtures could be installed in one small test area right now; if they are well accepted, the whole job could be finished during vacation.

The first hedge is more bother than it's worth. With a large part of the work done, a change of plan would be difficult, and in any event, much of the job would be left for later when work would be disrupted. The



HOW TO UNDO A MISTAKE *continued*

second idea is relatively simple and represents, not just caution, but a sound method of making the change.

Timing the change

Perhaps the most delicate question to be faced is: How do you know when it's time to reverse a decision?

There is a real danger in jumping too nimbly to the conclusion that a plan is going wrong. Many projects need just a little more push to go over the top. Abandoning attempts too soon is often a mark of timidity.

But there are many more times when the opposite mistake is made. A failing program is allowed to go on and on—sometimes even to the point of no return.

The judgment to distinguish between these two, the sense of timing that dictates when to press the brake pedal—that is a special product of talent and experience that cannot be reduced to a rule.

Judgment can be aided, however, if you keep one thought before you:

Failure to make a change is, in itself, a new decision.

In effect you repeat this decision day after day when you fail to change in the face of adversity. Maybe keeping the status quo is the right thing to do, but be sure that logic, not inertia, dictates the choice.

Sometimes the cost of undoing the decision seems too great. In any number of situations a move is recognized as unfortunate, but once it's done, canceling it means enormous loss of prestige, or good will, or just plain money. This may be the case with a price increase that proves damaging to sales, or a new customer service feature that doesn't really live up to expectations. Before you conclude that you can't afford to change, calculate whether you can afford not to.

This kind of decision is frequently made in a vacuum. Everybody agrees that it would be too expensive to take off in a new direction now. But too expensive in comparison with what? No course is too costly if it's the cheapest one in sight.

Unforeseen errors

Once the decision to change is made, some improvising will undoubtedly be necessary. Even if hedging has been used as far as possible, situations may still arise that are not normally foreseeable. Also there just isn't time or money enough to provide for the absence of every important man, the decline of every product, the scarcity of every raw material, the passage of every conceivable government restriction.

For the innumerable situations that cannot be insured against, then, the only form of preparation is to have a standby program that everyone agrees on for the correction of decisions that go wrong. There is no way to be prepared with details, so we must prepare with general attitudes.

This is like a ship's captain saying to his crew, "We can't decide exactly what to do in case of emergency because we don't know what kind of emergency it will be, but we can decide to obey orders strictly, to check certain assigned stations, and to place the safety of the passengers first."

This kind of established, course-adjustment policy involves four main points:

1. Admit frankly that an error has occurred. Psychol-

ogists say some people find it almost impossible to admit—even to themselves—that they made a mistake, but the average person has no such problem if he sees a general policy of open admission on everyone's part. It should be common knowledge among your executive group that mistakes resulting after reasonable care was used will be more readily tolerated than an attempt to evade responsibility. It is especially necessary for each man to feel that he has a duty to face the fact of error and to pinpoint its cause—regardless of who committed it. A permissive attitude and reluctance to point out mistakes frankly to subordinates can be as harmful to the over-all spirit as an overly critical atmosphere. When criticism is tactfully given as a matter of course, it is a positive contribution.

2. Make a heroic effort to avoid useless blaming and recrimination, substituting instead an analysis that



will prevent recurrence. Remember, too, to look for the benefits that may result from the error. Sometimes a series of disappointments proves to be the forerunner of a great success. Such an approach has the added merit of showing all concerned that the company is looking ahead to its future performance, rather than harboring a grudge for old mistakes.

3. Wherever possible, let the man who made the original decision handle the corrective procedure. Too often, the worst consequence of a mistake is damage to confidence and group morale. This is largely averted when people are allowed to see and overcome their own errors.

4. Move ahead in the new direction with the spirit that the change represents an entirely new and separate decision. Broken plans trail disappointment and lethargy in their wake; new ones are surrounded with the glow of enthusiasm.—CHARLES A. CERAMI

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How do you determine vacation allowances?

How do you establish a pension plan?

How do you set salary standards?

How do you kill unfounded rumors?

How do you promote safety conditions?

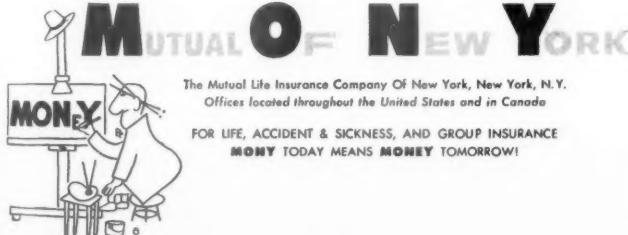
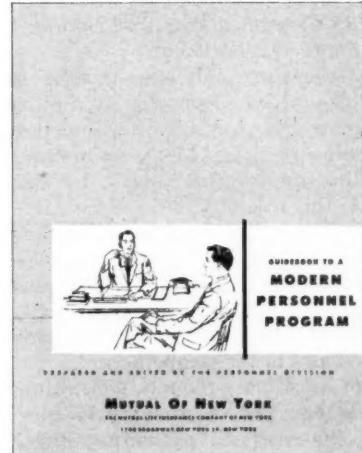
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HOW NONCOST FORCES SHAPE PRICE POLICY

Consideration of these elements
can help you compete
in today's market situation

PROPER PRICING is a key to adequate profits. It is also one of management's most complicated processes because the factors involved cannot be combined into a simple formula, applicable to one company or to the same company over a period of time.

One General Electric Company executive says that "pricing is a water-testing process. You put your toe in and, if it isn't too cold, the whole foot goes."

In practice, the price-maker must develop a feel for his situation and exercise informed judgment in equating the various factors.

Costs are only one of these factors although the popular impression is that a company takes all of its costs and then adds a liberal profit margin to determine its price. Many businessmen who don't follow this simple formula think that they are the exceptions to this rule of sound pricing.

The fact is, the exception is the rule. A businessman must consider many factors other than costs in determining his price. Often these other factors are more controlling than costs. Only at his peril can a businessman ignore the reactions of consumers, the actions of his competitors, the prices and availability of substitute products, political pressures, and related factors. This is particularly true during a recession.

In a period of prosperity, undesirable practices tend to develop in pricing as in the other phases of business policy. During a boom, the line of least resistance is to pass higher labor costs and other costs on to the ultimate consumer who can bear the higher price because of his own improved economic well-being.

The successful pricing formula seems to be: Merely determine costs (and that is not as easy as it sounds) and add a fair profit.

In fact, throughout the war and postwar period, the cost approach to pricing has been overemphasized. Advocates have found a rationalization for their thinking in the practices of OPA and OPS and in renego-

tiation proceedings. The cost approach had some feasibility because we were riding a wave of inflation.

Many companies which raised prices in the 1955-57 boom period attributed the higher prices to higher costs. This is shown by a survey I have made of the price increases announced since the late summer of 1957.

It is interesting to note that many companies announced that their price increases were not sufficient to recoup the actual rise in costs or that they had delayed the effective date of the price rise in the public interest. For example, one Ford Motor Company official has testified that the 1958 price rise "did not offset all of the cost increases already incurred in 1957, much less any further increases during 1958."

Other companies or industries with a similar experience have included Weyerhaeuser & Co., the steel industry, National Can Corp., the rubber tire industry, and International Harvester Co. Cleveland-Cliffs Iron Co. announced in February that there would be no change in the price of iron ore and that it would absorb both wage and freight rate increases. Here, these companies were amending or departing from the cost theory of pricing because of some other forces.

The events of the past few months have shown that the cost approach provides no road to proper pricing. Now that price is again important to consumers, the cost-plus-profits formula in many instances is pricing products out of the market.

The decline in consumer incomes and the increase in unemployment and partial unemployment, for example, have been reflected in a reversal of the trading-up process which characterized many products during the boom period. The businessman is rediscovering there is a right price for the consumer as well as a right price for himself.

The wave of cost-cutting which is developing reflects these changes. Higher wage costs must be offset by decreases in other costs or by substituting ma-



achinery in an effort to hold down or reduce unit costs. Instead of adding up costs to determine prices, the businessman is being forced to start with a price and then determine what costs he can afford to incur. In other words, price determines cost to a more significant degree in a recession than is true in periods of boom.

The problem of which comes first, the cost reduction or the price cut, becomes particularly important in industries which are experiencing significant improvements in technology or are introducing new products. Here we find two conflicting philosophies:

1. The dynamic, low-price approach which penetrates lower levels of demand promptly in order to obtain the volume which will make possible a large reduction in unit costs.

2. The skimming-off price which holds the price high enough to cover current costs rather than to take a chance that a sufficient increase in demand will be forthcoming to justify the lower price.

As an illustration of the second approach, the manner in which ball point pens were first marketed may be recalled. The initial prices were high. As successive layers or segments of demand were saturated, the price was lowered. The process was much faster for ball point pens than is usually the case. The newness of a product with consequent low consumer receptivity may make it desirable to follow this pricing tactic.

Henry Ford, Sr., was a leading exponent of the price-cut first approach. He expressed his philosophy:

"I first reduce the price to a point where I believe more sales will result. Then we go ahead and try to make the price. . . . One of the ways of discovering what a cost ought to be is to name a price so low as to force everybody to the highest point of efficiency."

The automobile and electrical appliance industries were leading exponents of low price policy before World War II. In the postwar years, price reduction as a device to expand markets has been used for many products including television, transistors, the miracle fibers, and many of the new metals.

A leading exponent of this type of pricing policy has been Du Pont. Cellophane may be used as an illustration. According to the company:

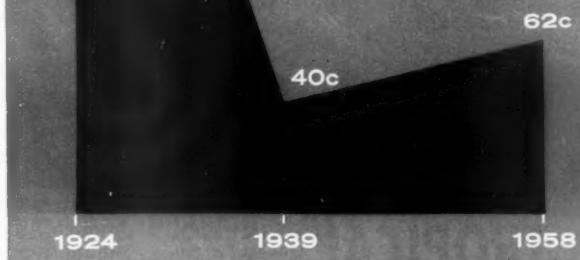
"When first manufactured in the United States by Du Pont in 1924, cellophane sold for \$2.65 a pound, a price that limited its usefulness to wrapping luxury goods. Improved film properties and improved manufacturing methods led to lower prices and wider markets. A series of 21 price reductions brought the average selling price of cellophane to 40 cents a pound in 1939. Since 1939, prices paid for cellophane raw materials have risen 123 per cent and wage rates in Du Pont cellophane manufacturing have risen 182 per cent. However, continuing technological improvements in manufacturing have made it possible to hold price increases to 53 per cent over the 1939 low. If cellophane were made today by 1924 methods, its price would be no less than \$5.50 a pound. As it is, the most commonly used types, vastly improved in properties over former years, sell today for 62 cents a pound."

Let us consider several of the noncost factors which affect pricing:

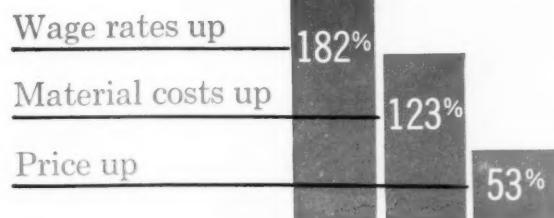
American industry always has been characterized

\$2.65 lb

Improved manufacturing and wider markets pushed cellophane price down to 40c a pound in 1939. Since then same factors helped keep price rise moderate when compared with other factors, shown below



Company shows these percentage rises since 1939



by strong competitive pressures—although these are not always reflected in price changes. The term nonprice competition has come to be used to describe the competition in styling, deliveries, advertising, credit terms, packaging, guarantees, brand names, and other devices which a company may adopt to preempt a share of the market to itself. Despite the enormous growth of nonprice competition, however, price competition is not dead. The pressures on prices in textiles, lumber, appliances, automobiles, and many other industries is a constant reminder of its importance. For example, Theodore O. Yntema, vice president-finance, explained Ford Motor Company's pricing policy to the Kefauver Committee as follows:

"When the time came to establish our 1958 model

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Manufacturer explains why price competition has more than one dimension

prices, the company once again had to resolve the conflicting pressures of increasing costs and a highly competitive market.

"Our problem in setting 1958 model prices was further complicated by specific changes in competitive conditions. For example, our principal competitor brought out an all-new 1958 model that was nine inches longer and some 170 pounds heavier than the 1957 model of the same make. We could not ignore the possible implications of such a move on our sales outlook. . . .

"We have not found it possible to price much above the most nearly comparable models of competition; to do so would entail heavy loss of sales volume. . . .

"What is not generally understood is the fact that price competition has more than one dimension. Since the products are not identical, we in the automotive industry compete just as truly by offering more for about the same money as we do by offering a lower price."

Competitive price pressures increase in severity in a recession. While some companies announce price cuts because their costs have declined, the more typical explanation is found in such phrases as competitive conditions, a declining demand, and market conditions.

Producers of many diverse products give more attention to factors other than costs when competitive conditions warrant lower prices.

Price leadership

Price leadership describes the practice where price changes are initiated by one company and then followed by other companies. Usually, one of the large companies is the price leader. In some industries, however, any one of several companies may act as the price leader at different times. It should be emphasized that price leadership does not imply collusive action, as Senator Kefauver has suggested. On the contrary, competition makes it imperative that the leader be followed.

The reason for following prices down is usually easy to understand. When the leader cuts the price, the failure to follow the reduction might mean a loss of volume. But what compels a company to follow the leader in raising the price? Why not hold down the price and thus divert

volume away from the leader? The answer is found in the fact that all or most companies in an industry are subject to the same pressures for higher prices. This is true whether the pressure reflects higher costs, more intensive demand, or any other factors. The smaller company is reluctant to change its price until its larger competitors have acted. It is then most eager to follow.

When demand is particularly strong, and exceeds capacity to produce, the smaller company may even raise its prices more than the price leader. This was evident in many industries during the 1955-57 boom.

The importance of competitive factors is clearly demonstrated where changes in prices have not been followed by other companies and hence have had to be rescinded. This has occurred several times in connection with cigarettes and various petroleum products.

Political factors

Large companies also have had to consider the political effects of their pricing policies—particularly when higher prices seemed warranted. Thus, in explaining the July 1957 steel price rise, Roger Blough, chairman of the board of U. S. Steel Corp., stated: "We took into account the publicly stated desire of not only the President of the United States but of many other people in this country, to act as conservatively as all of us possibly could in this type of situation." Many other companies are fully aware of the importance of this factor in their pricing. This is sometimes reflected in the advertisements which appear after presidential appeals are made to hold down prices. This may be considered as a political as well as a public relations aspect of pricing.

Characteristics of product or industry

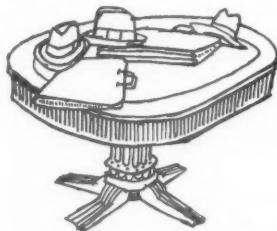
The economic characteristics of a product are of primary importance in determining the emphasis to be given to various price determining forces. Contrast, for example, the importance of cost and noncost factors for a perishable product and for a nonperishable product. Take fruits and vegetables as an illustration. For the fresh product, which is perishable, the predominant factor affecting short-term pricing is the relation-

ship between demand and supply. High-level demand or curtailed supply (for example, Florida vegetables this past winter) is promptly reflected in sharp price rises. The inability to store these products is a significant characteristic which influences such prices. In contrast, canned fruits and vegetables can be stored. Hence their prices are influenced to a lesser degree by those factors—at least in the short run.

Are we pricing a consumers' good or a capital good? Reductions in price would do little to stimulate a lagging machinery industry during a recession. The major determinant of machinery purchases is the profit outlook of the purchaser, not the price. When the profit visibility is poor, his interest in the purchase of new machinery declines sharply—often disappears entirely. On the other hand, sharp price declines for consumers' goods can bring greater effective demand unless the consumer views these price concessions as a portent of more concessions to come.

Products with an elastic demand—a demand which rises proportionately more than price declines and vice versa—will be influenced by different forces than one with an inelastic demand. Salt is the classic illustration of a product with an inelastic demand. Many capital goods also are in this latter category during periods of declining economic activity and lower profits.

The list of product characteristics could be extended to include availability of substitute products, neces-



sities as compared with luxuries, durables as compared with nondurables, standardized as compared with nonstandardized or specialties, relative importance of labor and raw material costs, and many others.

The problem is further complicated by the fact that products have different combinations of these economic characteristics so that no simple answer can be prescribed for proper pricing. Unfortunately, there is no substitute for a product by product analysis, including a study of past experience.

—JULES BACKMAN
Professor of Economics
New York University

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PUT POWER IN YOUR WORDS

Four guidelines will help you communicate more effectively

EVERY TIME AN EXECUTIVE opens his mouth in the course of a business day he is, in effect, making a speech: presenting ideas and proposals to staff sessions, board meetings, sales conventions or fellow workers.

His effectiveness as a manager may depend on how well he handles this kind of communication. If he is vague or disorganized, he may find himself in the position of one company president who told his manager of foreign operations:

"Our Paris plant is losing too much money; go over and put a stop to it."

Soon he got a cable:

"Have sold Paris plant."

Which was not what he wanted.

A new method of avoiding this sort of misunderstanding consists of four basic essentials:

1. *A fast-working formula for organizing a speech or presentation.* This can work with such dispatch that executives can learn to formulate impromptu talks in 30 seconds.

2. *A technique for looking at a speech from the viewpoint of the audience.* Here a lesson in listening is involved which almost literally puts the speaker in the listener's place.

3. *Prolific use of illustration and applied anecdotes.* This applies to the point where the audience is virtually entertained into complete attention.

4. *Doing what comes naturally.* This involves use of the voice and body in a way that contributes to the idea and doesn't get in the way of it. It calls for no eloquent gestures or dramatic posturing.

The formula was developed by David Phillips, veteran professor of public speaking and former head of the department which deals with that subject at the University of Connecticut. He started working with businessmen 15 years ago in the adult education classes at the University of Tennessee when businessmen asked him to help in making better company presentations. He carried on similar work at Connecticut until the American Management Association asked him to teach executive presentations at the association's Academy in Saranac, N. Y.

Though not basically aimed at public speaking, the new approach can be used for that purpose. Jay Derrick, director of Industrial Relations for the Crosley Division of AVCO, who took Mr. Phillips' course, says the method even helps him dictate letters.

Picture yourself
as listener



As taught by Mr. Phillips, the process of making a presentation involves these steps:

Organizing the speech

Organizing a speech revolves around finding the focus. Focus is the arbitrary but expressive term which means the response you are asking from your particular audience. You say to yourself:

"What am I going to get these men to do?"

Business communications are often ineffective because the man who gives an instruction doesn't make clear exactly what he wants done. In other words, a company manager should not tell his factory executives:

"Our communications should be better."

He should tell them, for example, "Our foremen must be trained to give our machine operators specific written instructions."

Unless you're specific, there's always the danger that you will have one picture in your mind while your audience has another.

After you've answered the question, "What do I want them to do?" think of two main reasons—or three at the very most—why they should do it. These are the body of your speech. Your audience can't grasp more at one time.

Now that you've got the focus and the body of your speech, you're practically in business.

A speech should consist of four main parts: Introduction, focus, body and conclusion.

But the parts are to be created in this order: Focus, body, conclusion, introduction. You can't write an introduction until you know what you want your audience to do. That's why you get the focus first.

Each point in the body of your speech should be clinched as you make it and, if necessary, summarized. Don't bring in any new material in the summary; it should be used for making more vivid what you've already said. The conclusion may be an example or illustration which puts the whole thing in a nutshell.

According to one school of thought, an executive shouldn't have to make extemporaneous speeches or presentations. He should prepare presentations in advance on any of the issues that are likely to arise in the course of the day's program—at conferences, board meetings or other occasions. However, should he be caught short, he can organize his thoughts quickly by the method outlined. Executives practicing this procedure have drilled until they were answering calls to the platform for impromptu three-minute talks and formulating their presentations in the 30 seconds required to walk to the rostrum.

They say this facility for organizing a speech will eliminate stage fright. Stage fright results, they find, when you don't know what you are going to say or how you are going to say it.

Putting yourself in the listener's place

To put yourself in the listener's place, you need to know his attitude toward five things:

1. *The subject.* It may be dull. If so, you have to compensate.

2. *The speaker.* If you're the manager, the listener's attitude will depend on your popularity or nonpopularity. Or, if you're the new manager, it will depend a lot on whether or not your predecessor was unpopular. Again, it may depend on some situation that has arisen in your organization; if your people sulk, they're unhappy about something and the sooner you find out about it the better.

3. *How much does your listener know about the subject?* It's not hard to key your message to your listener's knowledge if you test him out with a little two-way communication.

4. *What is his background and experience?* An excellent illustration here is the experience of the estate-planning officer for a large bank.

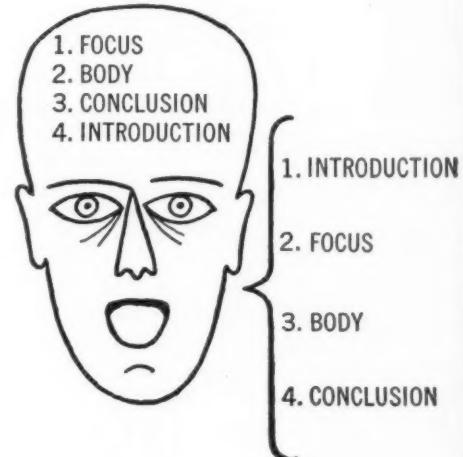
"Last year I asked myself how I could make estate planning interest-

FOCUS:

What do you
want them to do?



Organization and delivery
follow different orders

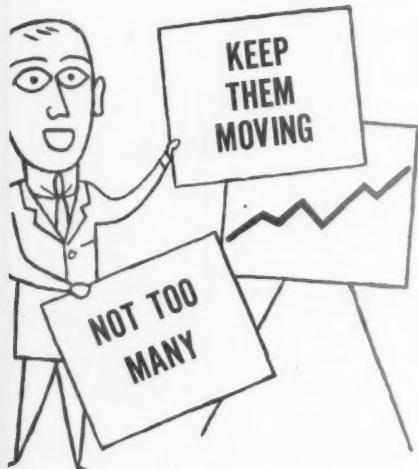


PUT POWER IN YOUR WORDS *continued*

Message must affect audience



Visual aids . . .



ing to dentists. I'd just spent \$5,000 for visual aid displays and they didn't accomplish a thing. Then one day I got to wondering about the relationship between estate planning and dentistry. I decided to find out what it is.

"I made an investigation of the procedure by which the dentists organize their work to fill a tooth. Then I built a presentation around it that drew a parallel to estate planning. It captivated the dentists' interest immediately. Then I did the same thing with women's clubs for tulip planting and tried it on one group after another. Today, business is booming."

5. *Size up the listener's mood.* The worst time to talk with anyone is just after he's made a mistake. His mind is on what he's done and he's not going to listen to you. If you've got to address a board meeting just after the directors have had a wrangle, they're going to be in a bad mood and you've got to do something to offset it.

Or again, your audience may be tired. There's an old saying in the public speaking profession: "The mind can understand only as much as the seat can endure."

Moreover, there may be no fresh air in the room. The sun may be in their eyes. Or there may be some other discomfort. Try to create the most favorable circumstances for what you've got to do. The chances are it'll be hard enough anyway.

Making it interesting

Here are four rules to which your speech must conform if it's to hold maximum attention:

1. *It must be specific.* Nobody paid much attention to a certain plant superintendent in all the weeks he was campaigning to cut down the annual waste at the plant. It never seemed to impress employes to be told they were throwing away \$100,000 a year.

Then one week end, the superintendent did some thinking and on Monday he came in with a big piece of beaverboard on which he'd pasted the pictures of 55 automobiles. Displaying this board at his next meeting, he said:

"Each one of you could have one of these cars every two years if you'd cut out unnecessary waste in this plant."

That time he got some action.

2. *It must affect the listeners in some way.* Mr. Phillips gives a good illustration from his own experience.

"I used to weigh about 240 pounds," he recalls, "in spite of the fact that doctors were always begging me to take off weight. Then one day I was waiting for my doctor when he suddenly popped his head in the door.

"This is an emergency, Dave," he told me. "Will you please carry these two children up to their mother on the second floor?"

"I grabbed two 30-pound kids, one under each arm, and toiled up two flights of stairs. When I got there, I was puffing fit to kill.

"Aha," crowed my doctor, "that shows you what I mean: you carry that much overweight around with you all the time."

"It wasn't too long before I was 60 pounds lighter."

3. *It must be in familiar terms.* One utility executive who took the Phillips course told how he had licked this one.

"I used to have a customer who was always badgering me about the high price of electricity," he said. "Finally I decided to have it out with him in terms he could understand.

"How many packs of cigarettes do you smoke a day," I asked him.

"Two."

"All right. At slot machine prices, that's 50 cents, or about \$15 a month. Your electric bill was \$14.82. About the same. Now what's the first thing you do in the morning?"

"I turn on the radio," he said.

"OK, but do you know that your daily cost for that radio is only one cigarette? Now what do you do next?"

"I went through the day with that man and put all the daily functions in his household—the cooking, the cleaning and so forth—on the cost basis of cigarettes. Before I finished, he threw up his hands."

"You're practically giving me that electricity," he laughed as he headed for the door."

4. *It must be novel.* Don't say it the same way twice. You've heard members of an audience mutter: "My Lord, is he going to give *that* old speech again? Let's go and have a cigarette." Look at the national appeals—U. S. War Bonds, for example. They have a new approach each year for a message that's as old as the hills.

Learning to listen

There are five barriers to good listening:

1. *Semantics.* Words must have a common meaning for both listener and speaker. We can all remember unfortunate occasions when they didn't.

2. *Preconceived notions of what the speaker is going to say.* You can get off on the wrong foot this way and never recover your interest.

3. *Prejudice against the speaker.* This dulls the effect of the presentation and sometimes even nullifies it.

4. *Personal feelings.* These may be pride or resistance to change.

5. *Inattention.* Here the mind is occupied elsewhere.

What do you do about these barriers?

As a speaker, try to be alert to these things and recognize them for what they are. Then take measures to offset them.

As a listener, apply the techniques of good listening:

1. Determine the speaker's focus, what he is trying to say.
2. See what main points he is using.
3. Note how he supports his points.

Applying these techniques helps you nullify the barriers to good listening and puts you in a position where you can ask more effective questions of the speaker—or take more effective action on what he tells you. This lesson has a double purpose: to make business speakers more audience-conscious and to train business people to be better listeners. The better they can listen, the better they can learn and do.

Using visual aids

Business presentations probably make more use of visual aids than any other type of public speaking. Visual aids accomplish three purposes: They help the listener understand a complicated process, stimulate interest, and aid the memory.

For the speaker, they also have values. They:

1. *Sharpen his material.* If he can't assist with visual material what he's going to present, it needs reorganization.

2. *Give him an outline to go by and get him away from his notes.* It takes an accomplished speaker to talk from notes; best thing is to work from highlight words or key sentences which can be glanced at quickly and casually.

Visual aids can be anything that's effective. Commonly, however, they include illustrations on blackboard or cardboard, models, slides or films.

The first rule for visual aids is don't use too many; you'll put the audience to sleep. Second, keep it moving.

How to support your statements. One of the most important skills contributed by the new approach to executive presentations, executives say,



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PUT POWER IN YOUR WORDS continued

is proficiency in supporting your statements. Seven methods may be used to prove the things you say:

1. *Example:* A mere statement of something that happened or a situation which proves the point you want to make.
2. *Illustration:* A more detailed statement of the situation or event.
3. *Statistics:* Be honest with your figures and don't use too many.
4. *Authority:* Be sure to use someone the audience knows and relies on.
5. *Analogy:* A comparison of the unknown with the nearest known.
6. *Explanation:* Tell them how it works so they'll know it's better.
7. *Re-statement:* Say it again in different terms—or by using a new illustration.

Over the years, Mr. Phillips has developed a theme which the businessmen in his working groups at first consider a bit corny. As he goes on, however, his subject, "What the Heart Knows," really goes over with his audience, mainly because it works.

It is based on the quotation:

"I have heard," said the philosopher, "that the head does not hear anything until the heart has listened, and what the heart knows today, the head will know tomorrow."

The point is simple: A presentation, no matter how logical, does not succeed unless the listener feels personally involved. There are seven basic impelling motives:

1. *Self-preservation.*
2. *Desire for money or property.*
3. *Desire for power.*
4. *Desire for reputation.*
5. *Sentiment.*
6. *Affection.*
7. *Taste.* (Love of art, music, drama, etc.)

"I claim that most of what we do is a result of one of these seven," says Mr. Phillips. "We do not readily understand concepts. But give us a clear picture that appeals to one of these basic motives and it comes through."

If you appeal to a worker with a concept like: "Do your best to help us turn out a superior product," it doesn't move him to any extraordinary action. But if you base your appeal on the good of his family, you're likely to get somewhere.

For example, one company doesn't waste time scolding absentees over the loss of valuable time. If a man is a chronic offender, a supervisor goes out and finds what this particular employee happens to be buying on the installment plan. The next time he's absent, he's called in for a little talk. And the man who does the talking puts it this way:

"Joe, you just tossed away \$12 yesterday that you could have paid on that refrigerator."

Being natural

There are just two simple rules for delivery:

1. *Never let the voice or the body get in the way of an idea.*
2. *Make voice and action add to the idea.*

"We never use the word 'gesture' around here," Mr. Phillips tells his working groups. "Anything as artificial as gestures usually results in distracting movements that bother the audience. Remember that old professor who used to drive you nuts with all his queer mannerisms?"

"And there's no such thing as too slow or too fast. Sometimes you speak slowly and sometimes more rapidly. It adds to variety. The big question is: 'Are you at ease?'" —PHILIP GUSTAFSON

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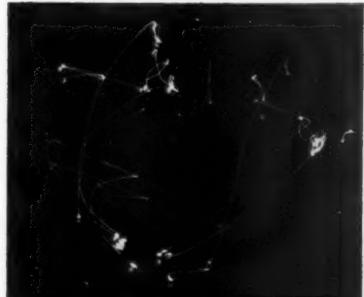
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Executive Trends

Managers must manage

Industry's frequent failure to develop management stems from two basic factors:

One factor is the failure of management to distinguish between leadership skills and skills in managing, says Louis A. Allen, management consultant, Palo Alto, Calif. A good leader, he points out, is not necessarily a good manager. The good manager, he explains, is one who is adept at initiating and making final decisions with respect to planning, organizing, motivating, co-ordinating, and controlling activities.

A second factor: failure to realize that managers can truly learn to manage only if they get practice on the job.

► *No amount of off-the-job training and study, Mr. Allen continues, will make a man an effective manager—unless he can convert this knowledge to operating management skills, and unless his own work is backed up by high standards of management throughout his company.*

Are executives interchangeable?

A question one hears raised in gatherings of management people these days is this: Can a good manager in Company A be transplanted to Company B and do an equally effective job?

Some authorities on management take the position that the answer is affirmative—that management involves certain basic skills and that a man possessed of these skills can transfer easily from one management job to another.

Others challenge this view. Nathaniel Stewart, a lecturer at the American Management Association, for example, believes the differing needs and climates of different companies militate against an executive performing equally well in two different organizations.

► *Dr. Stewart addressed a recent meeting of the Society for Personnel Administration in Cacapon State Park, W. Va. He argued that little real progress has been made in 30 years in efforts to develop a set of characteristics which will identify the ideal executive. Management must look to performance to see which man is the best man for a particular job, he maintains. Men who look good on paper so far as traits are concerned may not look so good in action.*

Research won't manage itself

One of the key areas to watch in industry in the months ahead is that involving the control by top management of research and development programs.

Business and industry currently are spending about \$7 billion

for R & D annually. Conservative projections place this expenditure—by 1960—at an annual figure of \$9 billion.

The rub in consideration of this increasingly vital aspect of industrial effort is that not enough thought is being given to intelligent supervision of research and development programs.

Hathaway Watson, of Booz, Allen & Hamilton—management consultants—says that despite its positive technical achievements, R & D has been disappointing in some ways.

► *Because of frequent abandonment of disciplined control of the research effort, R & D has not yet reached its full potentiality, asserts Mr. Watson. He points to budget violations, schedule slippage, poor relationships between R & D and other corporate activities, and—in some instances—low productivity. "More, not less, management direction is required if research is to meet its full promise," Mr. Watson declares.*

"Boss Kett" speaks his mind

Charles F. Kettering, a director of research and consultant for General Motors Corp., and one of America's greatest living inventors, has some peppery remarks to add to the continuing management debate over individual action versus teamwork.

"Boss Kett" offered his ideas on the occasion of his recent citation as a "Great Living American" by the Chamber of Commerce of the United States.

He told NATION'S BUSINESS: "The truly significant creative work in industry will always be done by an individual working alone. You can name all the committees and form all the work teams you care to. But some fellow on one of those committees will still slip off by himself somewhere and do the things that make for progress."

► *National Gypsum Company board chairman Melvin H. Baker, interviewed during the same U. S. Chamber meeting, had this to say about the business recession: "It's essentially a crisis in public confidence. People have money to spend but they aren't spending it. Business, in this readjustment, should work hard at better organization, better selling, better controls. There's a particular need now for product improvement, on-the-job sales training and tighter sales supervision."*

Management Memos:

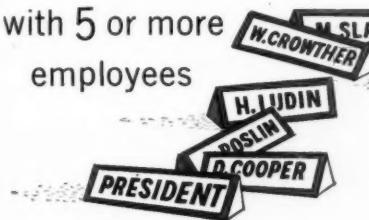
New twists in executive training: Temple University, Philadelphia, is setting up a transitional training program for retired military officers going into business jobs . . . Under new federal tax regulation, you can deduct money spent on executive training courses—if you can show schooling was primarily related to your job. . . . Sign of the times: annual reports, lavishly printed in postwar boom years, now are appearing in plainer, trimmer, more austere garb. Carrier Corporation, one of the companies which is switching, reports stockholders overwhelmingly approve the change. . . . Office Executives Association surveyed 148 companies, finds hiring resistance due to age is increasing for clerical workers. Ten per cent of responding companies put women in too-old-to-hire category by 35.

Changing language of management: "We're dieting." That's how one financial vice president describes cost-cutting drive in his company. . . .

Holding competent executives may be more difficult than getting them in the first place, says H. Y. Bassett, president of Calumet and Hecla, Inc. He says management must make opportunity for personal progress clearly apparent to all its managers.

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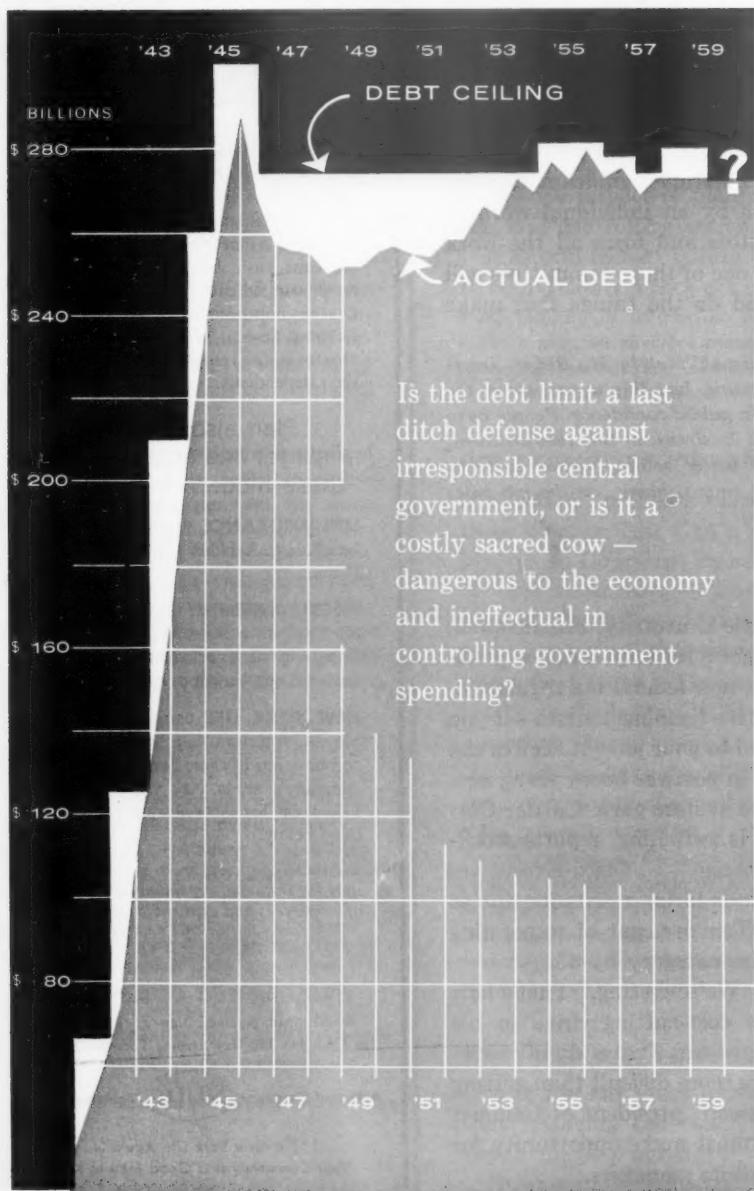
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NEW debt debate coming

Debt ceiling controversy still flares. Here's what to expect



IN COMING MONTHS, the debt of the federal government will force uncomfortable problems and decisions onto Congress and the Administration.

The basic issues involved have far-reaching implications for business, the taxpayer, and the whole national economy. Moreover, the problems are likely to be with us in aggravated form for the next two or three years.

The emerging debt situation can be depicted briefly as follows:

1. We have a direct federal debt of approximately \$275 billion which will rise rapidly later this year when tax receipts reach their seasonal low.

2. Because of the current business slump, federal tax revenues, heavily dependent on the level of personal and business incomes, are falling.

3. We have a statutory debt ceiling imposed by Congress of \$280 billion, which was hurriedly raised in February from \$275 billion to allow the Treasury to borrow to pay current bills. The \$5 billion increase, however, is temporary and is due to expire on June 30, 1959.

4. A cash deficit in the current fiscal year ending June 30, 1958, is inevitable. Present estimates are most uncertain because both receipts and disbursements are in a state of flux, but a deficit of \$3 billion or more is now being predicted as conservative. The outlook for fiscal year 1959 is more uncertain, but there are prospects of a substantial deficit.

In light of current economic events and political exigencies, the \$5 billion temporary increase in the legal debt limit now looks rather small and not so temporary. When the limit was raised, some legislators fought to hold the increase to \$3 billion. Others argued strongly that a \$10 billion boost was more reasonable. Now, even under favorable economic expectations, it seems likely that the debt limit will have to be increased by perhaps another \$10 billion. It is certain that the Treasury will request Congress to raise the limit again before the current session ends—perhaps to \$290 billion. Some say it may have to go back up to \$300 billion where it was in the closing days of World War II.

What happens in the near future and next year will depend on the rapidity and strength of economic recovery—which will increase the flow of incomes and tax revenues—and the spending and taxing schemes which are set in motion in this session of Congress. Acceleration of existing government programs will gradually build up pressure on the Treasury's cash position.

In addition if major new spending programs are enacted now, they will

probably come to fruition and converge on the Treasury after the current recession is past. In any event, the debate over the debt ceiling is barely started.

In the course of this debate we will hear that the debt limit is a last-ditch defense against irresponsible central government. We will also hear that it is a costly sacred cow that is dangerous to the economy and ineffectual in controlling government spending.

Some of us may ask ourselves, "Why should we have a debt limit when the Treasury can make only those expenditures voted by Congress and depends for revenue on taxes which Congress imposes?"

We will better understand the arguments and perhaps be able to answer our own question if we consider some fiscal and economic facts.

There are two kinds of issues in the debt controversy:

1. Those of chiefly an administrative nature—how the government should manage its financial affairs.

2. Those broader questions of governmental responsibility for promoting economic stability.

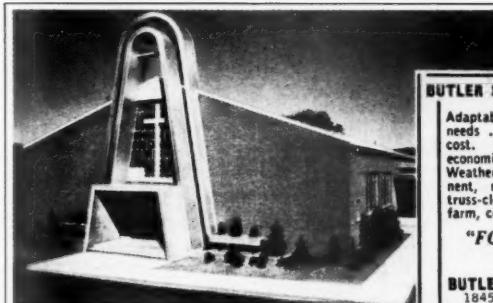
The administrative problems: At the administrative or managerial level, the imposition of the debt ceiling grows out of the exercise by Congress of its constitutional responsibilities and powers. Only Congress has the power "to lay and collect taxes and . . . to borrow on the credit of the United States." Traditionally, Congress has delegated borrowing authority to the Secretary of the Treasury as needed to defray expenditures authorized by Congress. Before World War I, Congress enacted a specific law each time the Treasury needed to borrow. From 1917 to 1941 Congress granted general authority to the Treasury to issue certain kinds of debt instruments and imposed limits on each separate type. In 1941 Congress imposed an over-all debt limit applying to aggregate debt, but not to specific kinds of issues. It is this kind of limit which is still operative today.

Between 1917 and 1941, the statutory debt limits (imposed separately) were changed 12 times—raised eight times, lowered once, and shifted internally three times. Since 1941 the aggregate limit has been raised seven times, lowered three.

It was lifted progressively from \$65 billion in 1941 to \$300 billion in 1945.

After the war the ceiling was set at \$275 billion, but it was temporarily increased in 1954, 1955, 1956 and 1958.

Obviously, Congress must provide



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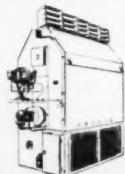
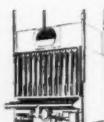
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general policy guides and supervision. On the other hand, the Treasury should have sufficient leeway in managing its cash and debt transactions to operate efficiently.

At any given time the Treasury has little cash on hand. Tax receipts do not flow in at an even rate, but claims are presented for payment in a never-ending stream, based on previous authorizations and commitments made by Congress.

Secretary of the Treasury Anderson told NATION'S BUSINESS that the Treasury pays out about \$1.5 billion every week. Generally from July through January these disbursements exceed receipts by several billion dollars. From February through June receipts are greater than disbursements.

Even when the budget is in annual balance, the Treasury must borrow temporarily in the course of the year to make ends meet.

When the Treasury is bumping its head against the debt limit, severe strains result. At times the government does not have enough cash to pay its bills. Something has to give, either the debt limit or the credit of the United States.

This was the situation in February when Congress raised the ceiling by \$5 billion.

A greater borrowing margin makes the debt more manageable. The Treasury can go into the market at opportune times to refinance existing debt on favorable terms or build up its cash position gradually to meet redemptions shortly coming due.

In sum, the managerial debt problem is created by Congress. If Congress allows expenditures to advance more rapidly than the tax system will support, forcing the Treasury against the debt limit, or if it shoves the debt limit down too tightly on top of the Treasury's cash position, it is courting financial crisis. There should be sufficient margin between the actual debt and the debt ceiling to make normal Treasury operations possible.

The economic problems: The more fundamental questions brought into focus by the debt debate are not managerial, but economic. The Employment Act of 1946 charges the federal government with a responsibility to adapt its policies in such a way as to promote high employment

and fairly general economic stability. Moreover, both political parties are committed to some sort of stabilizing action as economic conditions appear to require. Questions of budget policy and debt management must be decided largely in terms of the general health of the whole economy and not merely in terms of internal governmental affairs.

The practical and theoretical difficulties of using fiscal measures to help fight recession and curb inflation are legion. In addition, there will always be differences of opinion as to the desirability and feasibility of various combinations of monetary and fiscal policy. Whatever one's views on public finance, however, almost everyone now recognizes that, because of their sheer size, government financial operations exert an enormous influence on the economy and general level of business activity. Government is simply too big to ignore the economic effects of its action.

Budget surpluses, deficits, and debt repayment, as a practical matter and a political necessity, must be viewed in the light of economic reality.

Most of our federal debt, at least the direct debt of the Treasury which is subject to the statutory ceiling, has been accumulated as a result of deficit financing during depression and war. In 23 out of the past 30 years, we have had federal deficits. Since World War II surpluses have been achieved in only five out of 12 budgets.

In light of the government's responsibilities, how can the necessary fiscal discipline be achieved to insure that new debt is not incurred unless necessary and that any new debt will be repaid? Furthermore, what is to be done about the problem of repaying old debt?

The solution under modern conditions is not simple.

If there were no problem of economic stability and the government sector of the economy were so small as to have an insignificant impact on the economy at large, a strict annual balance in the budget would be the answer. An annual balance provides a simple rule of cost for transferring resources from private to public use. By insisting that any expansion of public services be matched by a corresponding increase

in taxes, the balanced budget rule imposes discipline on those who vote the public expenditures. But during recession, even if the government does nothing, automatic deficits are inevitable. It is impossible legally and practically for the government to adjust its activities quickly downward to keep expenditures within a falling flow of income.

Consider the current economic situation. With business activity declining, sales, profits, and incomes falling, tax revenues are also falling—and even more rapidly than income because of our progressive tax rate structure. If there were to be insistence on a balanced budget under present conditions, there would be only two possible lines of action, or a combination of the two: Cut government expenditures back to match the fall in revenue, or raise tax rates to provide the necessary revenues out of the lower level of income.

Either action would worsen a deteriorating economic situation. A cut in government expenditures would further reduce total demand and income; an increase in taxes would do likewise. The fact is that a temporary imbalance in the budget in times of business contraction is only normal.

This is not to say that particular government expenditures should not be cut; there is at all times ample room for reducing the scope of government activities and eliminating wasteful expenditures. But individual expenditure items should be cut on their own merits. Government demand for goods and services ought not be reduced simply because private demand is falling.

At the same time, government expenditures ought not to be increased for new and unnecessary programs because of temporary fluctuations in the private economy. We should not use either inflation or deflation as an excuse to cut or add public services.

Against this background, we can now examine the question: Since the Treasury can make only those expenditures voted by Congress and depends for revenue on taxes imposed by Congress, why should we have a debt limit?

At first glance, the debt limit seems incongruous, but some good reasons are advanced in its support. Some damaging criticisms are also leveled against it. The arguments pro and con can be summed up briefly:

Arguments for the debt limit

1. The debt limit, as many congressmen admit, is a device to help them discipline themselves. It closes

(continued on page 88)

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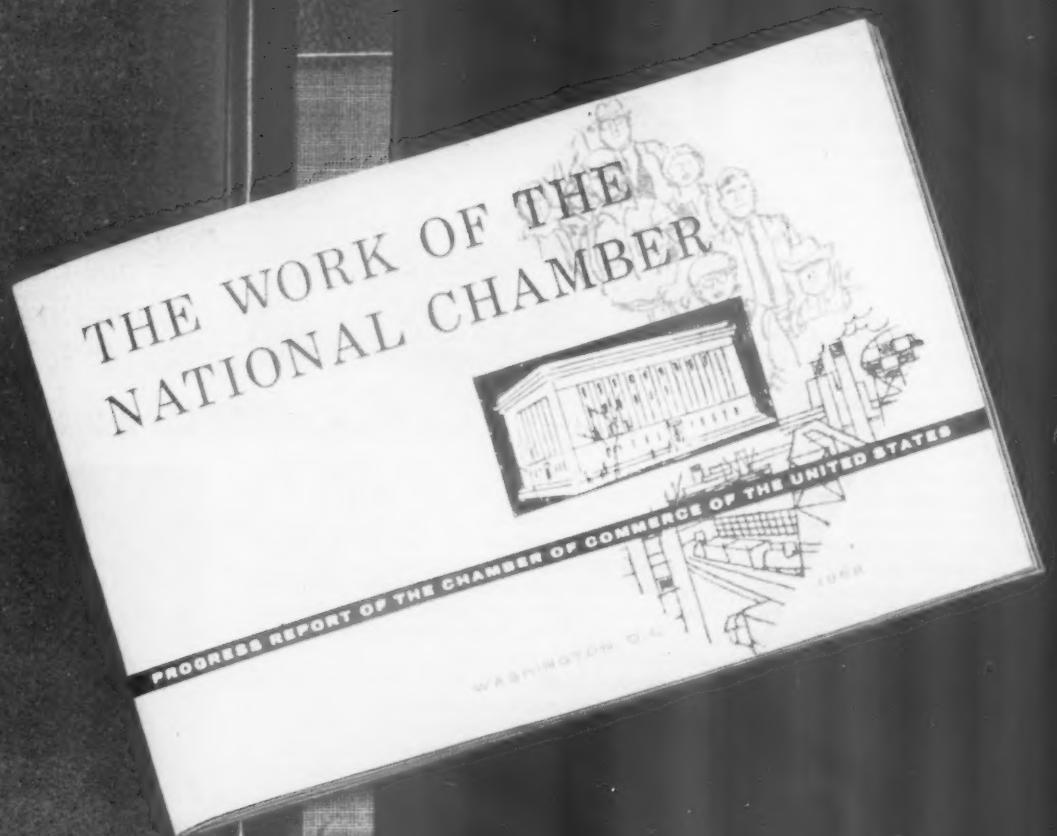
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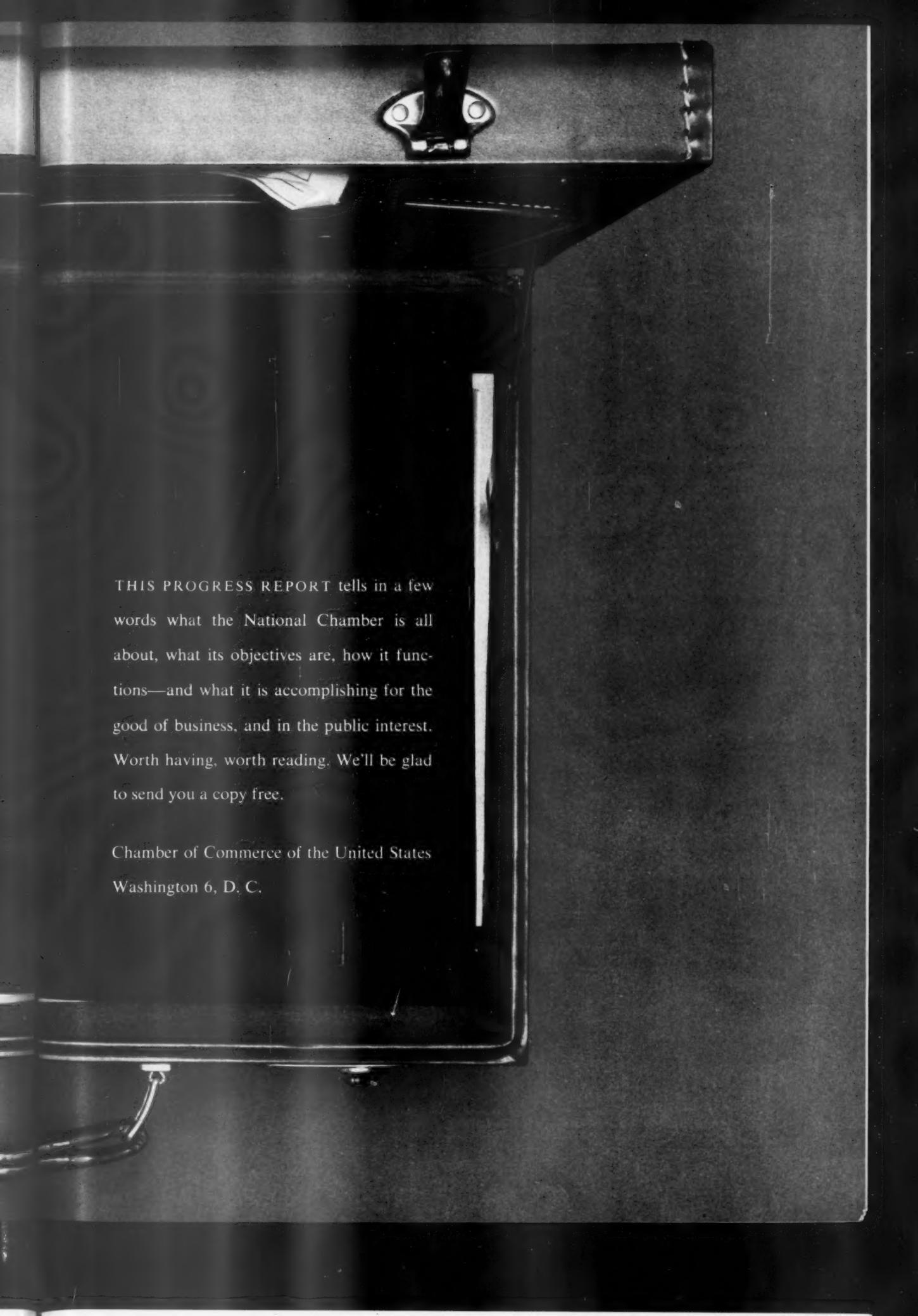
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Chamber of Commerce of the United States
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NEW DEBT DEBATE COMING *continued*

The debt limit may prove costly and promote subterfuge and inefficiency

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a gap, so to speak, in their defensive armor against ever increasing government spending. To expand governmental activities when the debt is near the ceiling, Congress must, by deliberate action, either raise taxes or raise the debt limit—both unpopular acts.

2. It helps both congressmen and the Administration resist pressure from special groups for higher government spending. If they point out the alternatives—"we must increase taxes or the debt limit"—they can turn aside requests, without having to take an unpopular stand on the particular issues or make tedious explanations.

3. It is intended to help Congress regain or assert some of its historical and constitutional control over the public purse. As government has grown large and complex, the budget has become a great jungle. The Administration proposes, and Congress finds it frustrating and difficult to dispose. The debt limit provides another check which makes the Administration come to ask Congress to raise the debt limit when it runs out of cash or embarks on expanded programs.

4. The debt limit can act as a device to keep government expenditures from ever increasing under the guise of economic stabilization policy. If, in every recession, government deficits are forthcoming, either automatically or as emergency actions, the need for temporary increases in the debt limit forces the repayment issue into the debate. Reversion to the lower debt limit when conditions improve also may help enforce a policy of budget surpluses and debt retirement during a boom.

Many people in and out of Congress strongly adhere to a statutory debt limit because they see the possibility that government spending will expand in recession and expand some more in a boom.

Arguments against the debt limit:

1. The debt limit is unworkable as a practical matter and imposes a dangerous strait jacket on fiscal policy. In recession, automatic deficits are inevitable with our present tax structure and governmental responsibilities. If the debt is near the ceiling, the general funds of the Treasury become depleted and payments

are delayed. At last, to avert a crisis, Congress must act hurriedly to raise the limit anyway. At best, it is argued, the debt ceiling delays and inhibits automatic, flexible defenses against recession. At worst (if Congress did not act), it would plunge the economy into disorder.

In some circles, there is strong feeling that the debt limit is partially responsible for the current business downturn. Last fall, payments by the government were being stretched out and new contracts slowed down to help the Treasury keep within the debt limit. Some feel that this fiscal stringency helped create the severe cash drain on business which quickened the decline.

2. The debt limit is costly. When the limit is bearing down continuously on top of the existing debt, it actually increases costs to the taxpayers. The Treasury cannot balance out receipts and disbursements within the fiscal year by temporary borrowing or manage existing debt most economically. Accounts payable become overdue and payments are stretched out. Contractors must raise the prices they charge the government in order to cover the costs of additional working capital. In addition, other government agencies go to the private market and borrow at higher interest rates than would be necessary if they could borrow through the Treasury.

3. The debt limit promotes fiscal subterfuge and weakens fiscal control. The statutory ceiling applies only to the direct debt of the government, but the indirect debt of specialized government lending and other commercial-type agencies has grown enormously and pressures continue to mount for additional indirect government borrowing. TVA, for example, last year asked for authority to sell revenue bonds directly to the public instead of borrowing openly from the Treasury. To be sure, indirect debts have grown for other reasons, but the debt limit is partly responsible. There is good reason to question the wisdom of the growing tendency in government to finance outside the regular budget and debt channels. It is becoming much more difficult to evaluate what the government is doing.

4. The debt limit harasses Treasury officials at a high cost of wasted man-

agerial talent and operating inefficiency. Even in surplus years when debt is being retired, the Treasury normally engages in short-term borrowing to even out the seasonal flows in receipts and disbursements. When the debt is bumping the ceiling, normal short-run adjustments in the Treasury's cash position cannot be made readily, if at all. General funds become low and must be shifted about to meet regional drains. Special deposits maintained at home and abroad for various special purposes must be juggled to keep government checks from bouncing. Managing the Treasury's cash account becomes a nightmare.

Between the partisans are those who like the idea of a debt limit as a psychological deterrent to government, but think it should be higher to leave room enough for normal deviations from even the best budget estimates in receipts and disbursements. The more ardent advocates of a tight debt ceiling, however, point out that, to be effective, it continuously must be pressing downward. They also fear that whatever managerial or discretionary margin is allowed would be used not for flexibility but for permanent additions to the debt.

Some people view the debt ceiling as an awkward instrument which may help government officials resist some pressures, but they also raise the question as to whether such a crutch actually improves the processes of responsible government.

The cynic is inclined to view the recurring wrangle over the debt limit as a form of congressional self-punishment for past fiscal sins—a distracting exercise in legislative hindsight. Current cash payments by the Treasury are not determined by decision today, but by past congressional action. In large measure they are determined by appropriations made a year or two ago, and programs started much earlier. Past decisions bring a converging stream of claims to the Treasury in excess of current revenues and borrowing limitations.

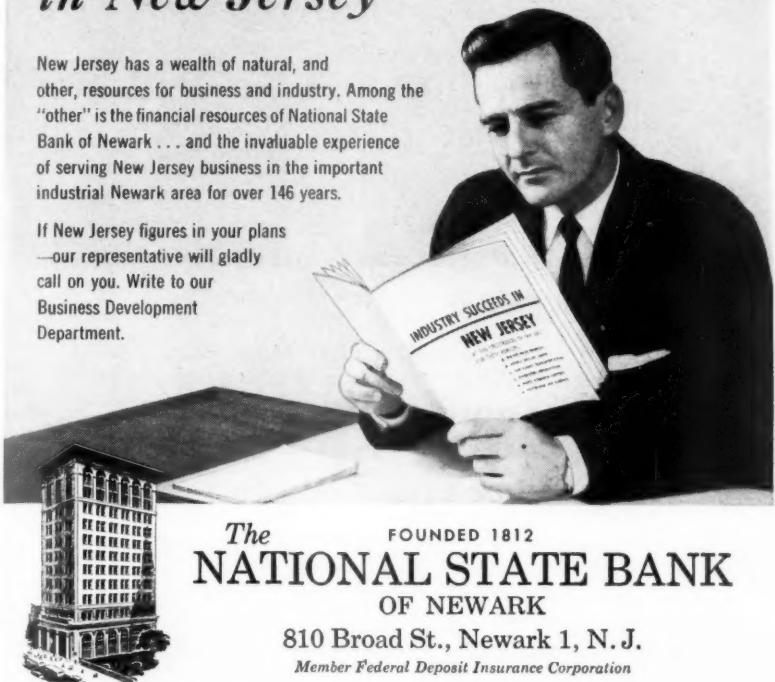
The will to resist irresponsible spending—whether advanced under the guise of stabilization necessities or social priorities—must come from a desire to keep government activities in their proper sphere and prevent creeping inflation engendered by one-sided antirecession policies. To place the emphasis on a rigid debt policy puts the line of defense where it is not likely to be effective. To do so may even divert attention away from the more fundamental issues of congressional responsibility.

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WHAT TO DO ABOUT STRESS *continued from page 35*

Three major crises add to tension felt by executives during business careers

where up is. Sometimes individuals pass it without the satisfaction of knowing they have achieved it.

This single-minded devotion often makes it difficult to distinguish between work and the rest of life. As a result we find people taking short and inadequate vacations, not getting enough relief from the tension; saying, "I don't have time for that"; often taking too much work home at night.

All of us take a certain amount of work home at night, but there is such a thing as too much of it.

Even when sitting down at lunch the characteristic thing is to talk about business.

But if a man really wants to succeed in his job, doesn't he have to do that?

DR. LEVINSON: I am not so sure that we have to talk business at lunch and all the time, or that we are so driven that we can't depart from it occasionally.

DR. MODLIN: The people who do so, answer: "If I don't, if I let down, if I take Thursday afternoon off to play golf, somebody is going to get ahead of me." That is the thing that drives them. They are sensitive to competition.

To summarize things, we may say that we all struggle constantly with two basic psychological problems: How to handle properly our tensions, which arise primarily from

our hostile and aggressive drives, and how to achieve satisfaction and gratification.

Now, the executive who is getting all of his satisfaction out of his job is stuck. If something goes wrong in the business he is in a bad way. As far as getting relief from tensions and pressures, if he has only one way to do this, he is a constricted man.

DR. LEVINSON: Another increasing problem is mobility, especially of larger organizations. If a man is promoted and goes from one place to another it makes it tough for him and his family to sink roots in a community and to maintain them. He raises the question: "Just where do I belong? Where do I fit? What is home base for me?"

Often the tie then is to the business. If anything happens to the business, this makes it pretty rough for him.

Also, if the man does move, he often finds that although he was a wheel in a small community in a new and larger community he no longer is looked upon with the same degree of respect. So, some of the recognition that he had previously received is taken away from him.

Then there is the whole business of promotion. On the one hand, the ethic of the business situation is that you have to be promoted. If you aren't promoted when it is your time to be promoted, this is often looked upon as having failed, even though in

a realistic sense one may not have failed at all. But, on the other hand some people can't take continuing promotions. We all have our limitations.

Then there are certain kinds of job crises, or decision points. For example, by the time a young man is, let us say, 30, in a large business organization, he has to make a decision. "Am I going to stay with this or not? Because beyond a certain age I can't move to many other companies."

There is much emphasis on growth and development from within. You have to start at the bottom. But after a few years you can't start at the bottom again. So you have to decide whether this is going to be it or whether you are going to move to something else. You can't move to many things in a matter of a few years. So this becomes a crisis point, the need to make a decision at an early point.

Incidentally, this may be one point where it might be helpful to have professional consultation as one thinks of long-term goals.

A second crisis or decision point is one of middle-age stock-taking. We all get to the point where we know it's downhill from now on. We are less physically capable. We have achieved certain goals; there isn't much farther we can go. We have fewer years ahead than we have behind. One begins to ask himself, "Well, did I get what I worked for?"

He may find that he got only part of the way to the goals he set for himself. There follows a certain amount of frustration, recognizing that "I am not going to get it."

A third crisis is the problem of retirement. Often there is a suggestion that people take up a hobby on retirement. Now, as we have said, hob-

bies have their place; but to take up a hobby is really not for many people a substitute for the kind of responsible leadership which they have exercised over the years. One has to plan ahead and to think ahead on what he is going to do which will make the best use of his resources and experiences and not merely think in terms of hobbies to anticipate this vast emptiness that comes when one cuts off all he has been doing.

What are you going to do about that? Here is where we come to the consideration of having a variety of experiences in life so that one isn't totally dependent on business alone.

DR. MODLIN: Another problem is assuming additional leadership and responsibility. This is a sort of corollary to loneliness. When you are a supervisor you have some responsibility and authority. But there are 40 other supervisors at the plant. When you get to be department manager or division manager, there are only four other division managers. When you get to be executive vice president, that's the only one of its kind.

The more you have these positions of responsibility the more stress may be produced. The amount depends upon our psychological concept of what authority and responsibility and leadership are. It depends upon how able we are to adapt from being a follower to being a leader. Those are two different social and psychological roles.

How would a man know if he has that adaptability?

DR. MODLIN: Diagnosing such a problem in advance is not easy. The usual thing in talking to people like that is to try to estimate how much anxiety and how much discomfort they are having.

A man will say, "I don't want any more responsibility. I don't want to give up the time I have with my family," or "I don't want any more headaches. I am comfortable where I am."

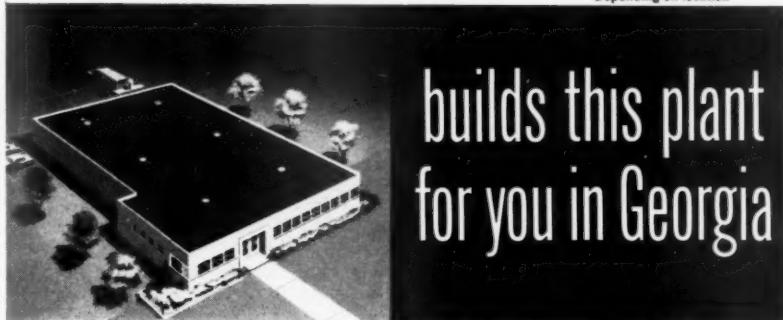
The psychiatrist can base his judgment about it on how the person himself feels. Sometimes he can't tell you in so many words, but you can tell it from his behavior.

The organization itself expects every man to get ahead and to look for promotion. Top executives are baffled when an assistant division manager doesn't want to become manager.

One of the constant queries to us is, "How can we identify the young man who is going to get ahead early?" They are mistaken so often. A company will promote three men. One of them will fall apart and start

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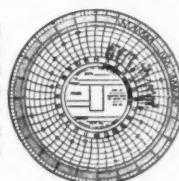
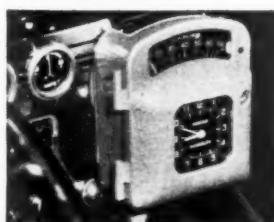


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What his superior does or doesn't do can materially affect an executive's growth

to drink. The second will do a mediocre job. The third will do well.

If we assume that everybody wants to get to the top of the ladder we find ourselves perhaps sometimes driving people who don't want to be driven.

Will a person be more successful if he realizes his limitations and doesn't try to exceed them?

DR. LEVINSON: Yes. He can do the job he is comfortable in; but put in a job where he is not comfortable, he may not succeed at all. Even if you know the man, it is difficult to tell whether he will break down on a job unless you also know what tensions the job presents.

We know that in different kinds of emergencies different kinds of people arise as leaders. Usually the group leader turns out to be the person who has the most skill in coping with that emergency.

So a man's performance on a job depends on the circumstances under which he is going to be working, what kind of supervision he will be given; the kind of support he will get from the business structure and other people to cope with the problems he must handle.

A man in business is not just a single figure alone. He has contact with the company. There are rules to go by; others to turn to for help on special issues, things of this sort.

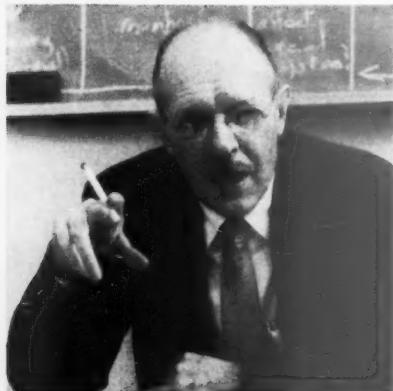
Often a person's growth in a business situation depends on the kind of boss he has; whether the boss is interested in him, wants to help him, does help him, advises and guides him.

All kinds of things add to a person's strength or make drains on it.

It is difficult to tell whether a man will succeed until you know all of these variables?

**Dr. Levinson:**

"Peace is an illusion as long as we are alive.... Our hope in talking about this is that people can learn to cope with their problems with greater equanimity."

**Dr. Modlin:**

"Many executives get to the top because they are men of action rather than men of introspection. A difficulty of self-analysis is almost built into them."

DR. MODLIN: A good psychiatric evaluation will tell you quite a bit. And one need not be sick for a psychiatric evaluation to be of value to him.

What would that involve exactly?

DR. MODLIN: As we conduct evaluations here it takes about two weeks. The psychiatrist will see the patient each day for an hour's interview. We will have a battery of psychological tests. Members of his family will be interviewed. We want to get as complete a picture as possible from the time he was born or even before; what his complete background is, his childhood history, how he handled the problems of adolescence. A complete history of development, work, recreation, relaxation, marriage, sex; the whole works. By the time you get a pretty good idea of how a man has grown you can project what he is going to be in the future with some validity.

Would this be beneficial to a business organization considering a man?

DR. MODLIN: Yes. Suppose the man is only 32. He will still be able to define a number of instances when he came in contact with authority and how he reacted. How did he get ahead in his Scout work? How did he get along with his high school work? How did he get along with his father? What tactics did he use to emancipate himself from his parents in adolescence? Is he going to use these same tactics with people now?

DR. LEVINSON: Some psychological consulting firms do part of this in the process of executive selection and evaluation. They interview people and use psychological tests to make predictions about how people will do with increasing responsibility.

In these interviews there are questions about people's goals in life, their motives, the type of psychological needs they have. One can then make some pretty educated guesses about how particular jobs will, or will not, meet people's needs.

Today's executive seems to be interested in knowing himself better as a first step in understanding others. How does he learn to understand himself?

DR. LEVINSON: Dr. Will [Dr. William C. Menninger, President, The Menninger Foundation] suggests boundary lines that one should examine in himself having to do with his relationships both in his work and with other people.

He asks people to take a look at their relationships with other people. Are you changing your friends all

the time, or do you maintain over the years strong and continuing friendships? The assumption is that one who can maintain a constant and enduring relationship with other people has greater positive strength for himself.

He also asks people to take a look at how they deal with reality when under stress. Can you go after the situation and lick it or does it get you down? Do you spend time on things that have nothing to do with the particular stress that confronts you?

Another yardstick is, how well can you accept your present frustrations to achieve something better in the long pull? If, for example, one can't go through the necessary period of training to achieve professional reputation, or a business career—if he can't tolerate the tension required to do this—then this detracts from his ability to achieve certain long-term goals.

Dr. Will offers this other one: Can a person find more satisfaction in giving of himself to other people, or does all his satisfaction have to come in taking from other people, in being the only one that is important to himself?

The last one he talks about is: Are you able to relieve tension and anxiety with appropriate emotional outlets? We all have tensions and anxiety at times, but do we have ways of coping with this? For example, in the course of a working day you may get angry or frustrated about something. You can't go around punching people on the nose; you can't go home and holler at the kids and kick the dog. There are other outlets through which you discharge this tension. Perhaps even in a constructive way.

Each of us has ways which are most comfortable for him. Some people get rid of tension by watching athletic events, boxing, football games.

DR. MODLIN: One of the most constant victims of frustration and anger is the golf ball.

DR. LEVINSON: We often get into discussions with people about various kinds of issues; political, social, and otherwise—another form of outlet. We play sedentary games—card games, chess or something of that sort—which offer us an opportunity

to compete, to attack, in a sense, the next person, in a socially acceptable way.

Some of us hike, some of us work in the shop in the basement; some of us belong to chambers of commerce and work in community projects. We spend a great deal of our energy in developing something constructive.

Is a man likely to spread himself too thin? Should he limit the total number of his interests?

DR. LEVINSON: This is another problem of the executive. When one rises to a position of responsibility in business, other people automatically increase their demands on him. Everybody wants him to lend a hand. Often he finds himself burdened down. There comes a time when one has to say, "This is enough."

The time to draw the line is when one feels too harried, when he begins to realize that he can't do all this and his work, too. The particular point at which one draws the line is pretty much an individual matter.

Is tension necessarily bad?

DR. MODLIN: We sometimes use that term rather loosely. As Dr. Levinson was using it, the implication always is that there is excess tension. There is such a thing as normal tension. In fact, we see some people whom we think don't have enough; they are too phlegmatic, too easy going.

How can a man tell when tension is getting to the unhealthy stage?

DR. MODLIN: There are many ways but the difficulty is that these things are subtle. A person sometimes doesn't recognize it until it gets out of hand. That is, he will take more drinks than usual at the cocktail party.

He will not necessarily be aware of it. It takes a pretty introspective person to tie up aspects of his own behavior.

His wife may say, "Weren't you drinking too much tonight, dear?" She will see it before he will.

Or he will be unusually sharp one night with the family. His wife has seen it before, and she holds her tongue. It blows over in a couple of days, and the executive hasn't been aware that he has been hard to live with.

But the greater tensions may cause him suddenly to get in an argument with his junior partner—something he later regrets. Then he may start thinking about why he did so.

What actions should he take if he finds himself doing these things?

DR. MODLIN: The best technique

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WHAT TO DO ABOUT STRESS *continued*

There are socially acceptable methods to work off one's aggressive feelings

for handling such tensions is for him to become aware that he has them and is reacting somewhat abnormally. He should then try to define the stress he is reacting to. If he can find the cause of his discomfort, he has a good chance of figuring out something to do about it.

What should a man do when he notices himself behaving differently than he used to?

DR. MODLIN: It varies. People vary in their capacity to be introspective. This may be one of the problems of the executive. Many executives get to the top because they are men of action rather than men of introspection. A difficulty in self-analysis is almost built into them. If he can really talk to his wife, or to a good, close friend, that should help. The use of talk is one of the safest ways of relieving tension. Some people react behaviorally rather than verbally.

They are the people who are likely to get in trouble.

By getting too aggressive with others or drinking too much?

DR. MODLIN: Yes. Or driving a car too fast. Or bawling out a friend or making an impulsive decision.

If they can stop and think before they act; they are much better off. Of course, the man of action often gets more done than the thoughtful man, and so his action-oriented personality is sometimes at a premium in certain kinds of executive jobs.

Should executives take mental checkups just as they do physical checkups?

DR. LEVINSON: It would be useful to ask himself: "How am I doing? How am I coping with these stresses? What are my goals and my values; and how effectively am I pursuing them?"

Should he do this with a psychiatrist or psychologist?

DR. LEVINSON: Yes; unless he happens to have a particularly sensitive physician with whom he has a good relationship; someone who is sensitive to the emotional aspects of a person's health, and with whom he can talk.

Some companies provide for a regular opportunity for their executives to talk with a psychiatrist.

Incidentally, one of the values in regular talks with somebody is that as time goes by, you keep talking about the same kinds of problems. This is one way of becoming alert to the particular things which help to create stress.

What kind of formula would you recommend for maintaining mental health and balance?

DR. LEVINSON: A range of interests is certainly one.

A second is to have an opportunity to talk to someone else about one's own tensions and problems.

A third is to take stock from time to time about one's goals, one's aspirations, one's values. What is it that you want out of life over the long pull?

What do you want to be able to look back on as having devoted these days which are not going to come again?

Another is to budget one's time. We are much concerned with budgeting in a business situation. We know we have only so much money

and we have to use it in the wisest way. We have to do the same thing with ourselves.

We have only a limited amount of time. We have certain kinds of goals and desires and aspirations. How do we allocate our time to insure that we devote a certain amount to the family, enough to the business, enough to outside things which give us a range of contacts and experiences?

Another thing is vacation—something to relieve the pressure temporarily, to regain one's strength, to relax a little bit, to recharge one's battery, as it were.

I think another thing is some consistent opportunity to invest one's self in other people. All of us get gratification from doing this. One of the things that we often do in prescribing course of treatment is to suggest that people take on some kind of voluntary work where they as individuals, are critically important in the lives of somebody else.

One can do this, not as an executive, not as a president, but as a human being.

The primary value in such a situation is that he has value as a human being, no matter what his name is or what his rank is.

Then there is such a thing as self-help in the field of mental health?

DR. LEVINSON: Yes. In the same

FOR PEACE OF MIND . . .

Dr. William C. Menninger advises executives: ". . . set aside a little time once a year, at least, to decide where you are going, what are your priorities, ambitions, aspirations. Maybe you are the president. So what? What in your personal life is most important to you? What is your time allotment in terms of those things? Do you know whether you are going in the right direction, and, most of all, where you want to get to? Not just in your businesses alone, but also in the personal things—your own free evenings, your own feeling of status and worthwhileness in life, your own dignity, your own integrity, your family."

sense that there is help in physical health by proper diet, by proper exercise, and things of that sort. One may take excellent preventive care of himself physically. This will not perhaps prevent his getting pneumonia or having to have his gall bladder operated on. But it will give him more strength to cope with whatever physical stresses may affect him.

In the same way one can take preventive steps in the field of mental health.

What is the best rule of thumb for coping with emotional problems as they arise?

DR. LEVINSON: I don't know whether it is the best one, but there is one important one: to understand that life is a series of problems, and all of us face them.

There is no such thing as peace of mind.

Peace is an illusion so long as we are alive. We can cope with our problems with greater or less equanimity, and our hope in talking about this is that people can learn to cope with them with greater equanimity.

By talking about it, by understanding, by being aware that these problems do exist?

DR. LEVINSON: One, to recognize that they do exist. Two, to recognize that they can get out of hand for us; and that at times it is helpful to talk to someone who can help us. From time to time for each of us they sometimes run a little bit out of hand and we need to have some help in dealing with them.

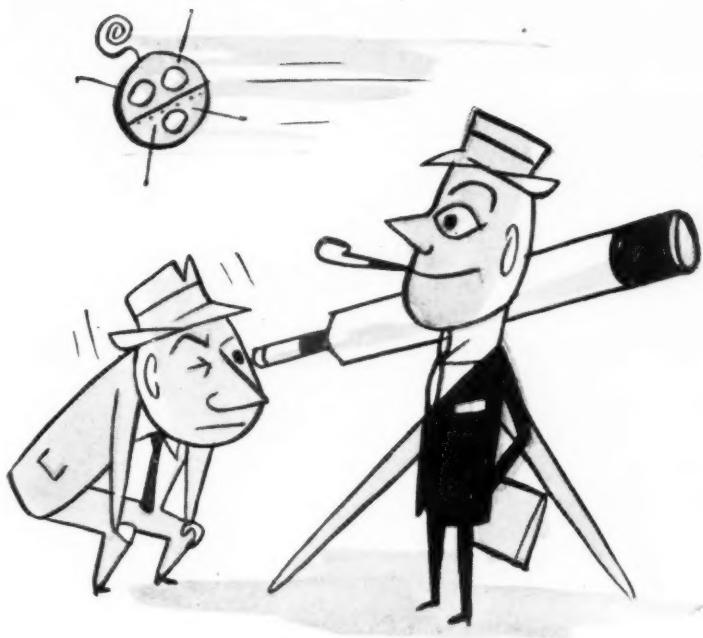
DR. MODLIN: One may say, in a simple way, that the reason for having a psychiatrist is that we are all limited in our capacity for self-analysis.

DR. LEVINSON: It's a mark of strength, in our judgment, to recognize when one needs help; not a mark of weakness.

Now, industry makes wide use of management consultants to deal with specific problems; different kinds of consultants for different kinds of problems. The businessman who recognizes the need for an outside opinion, outside advice and help, in his business would do well also to recognize the need sometimes for personal help.

END

REPRINTS of "What You Can Do About Stress" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from Nation's Business, 1615 H Street N.W., Washington 6, D.C. Please enclose remittance.



"As you sow . . ." Andy!

You realize, of course, that Sputnik opened the door to a new era. That the Space Age is not a thing of the distant future, but is upon us *today*, and that Main Street, Our Town, is feeling the effects.

To keep up with the times, to profit from these developments, you and I as businessmen must 'take stock.' We must re-evaluate our present systems and methods. We must stay informed and alert. Above all, Andy, we must *act collectively* to improve constantly our business conditions, and to make Our Town a better place to live in and to work in.

Our local Chamber of Commerce, of course, is the best vehicle for that organized action. And, if we are going to do more this year, naturally it's going to cost us a little more. The rewards will be that much greater.

You asked me why our membership dues are slightly higher this year. Let me tell you, Andy, it's a healthy thing that they are, because it indicates an *up-to-date* program. Effective. Hard-hitting. In tune with these challenging times. And with sights set on the future of the community. Our community, Andy, yours and mine.

Pete Progress

Speaking for
your local Chamber of Commerce

How do you account for the fact that you don't have two incomes?

Chances are there's no reason for you to plod through life on only one income... unless you want to.

To get a second income you have a wonderful array of choices. Especially if you consider an income from dividends on common stock.

One of the advantages of owning good common stocks is that extra income from dividends can continue for a lifetime and beyond. Another is that if the company grows, so can your investment.

Our little booklet, "DIVIDENDS OVER THE YEARS," gives much helpful information about investing. It includes a list of well over 300 stocks on the New York Stock Exchange that have paid dividends every year for a quarter of a century or more—some of them for several generations—and shows which ones have paid 5 to 6 percent at recent prices, which are preferred by financial institutions. It describes the Monthly Investment Plan, through which you can become a part-owner of some of America's most famous companies for as little as \$40 every three months up to \$1000 a month. The coupon below will bring it to you free.

For investment use only money left over after living expenses and emergencies have been provided for. Remember, not every company grows, some may not make a profit, may not pay dividends.

And stock prices can go down as well as up. So never depend on tips and rumors. Get the facts about the company.

And this is where a nearby broker can help you so much. If you don't know a broker, drop in on one today. Make sure he's with a Member Firm of the New York Stock Exchange. He'll help you plan an investment program in keeping with your pocketbook, perhaps recommending bonds instead of stocks. He'll help you buy or sell. And occasionally ask him to review your securities with you.

Send the coupon now. It can be your first step towards a second income.

Own your share of American business

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For offices of Members nearest you, look under New York Stock Exchange in the stock broker section of your classified telephone directory.

Send for new free booklet. Mail to your local Member Firm of the Stock Exchange, or to the New York Stock Exchange, Dept. B-38, P. O. Box 252, New York 5, N. Y.
Please send me, free, "DIVIDENDS OVER THE YEARS, a basic guide for common stock investment."

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A. Samuelson, president of A. Samuelson Wire Rope, New York, N. Y.

"Telephone calls keep us on top of a nationwide market"

"I recently telephoned a Cleveland company that wanted to sell several hundred thousand dollars' worth of wire rope," says Mr. Samuelson.

"During the following week, I arranged, completely by telephone, to purchase the entire stock. Only by telephone could I have made the purchase in so short a time—and with complete personal understanding.

"This is just one instance where we've used the telephone to keep our company on top of a nationwide market," says Mr. Samuelson. "We depend on it, and it never lets us down."

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Whether you buy or sell, the quickest way to the heart of out-of-town business is by telephone. It's fast, personal and economical.

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Pittsburgh to Columbus	70¢	20¢
Buffalo to Boston	\$1.10	30¢
Denver to Kansas City, Missouri	\$1.35	35¢
San Francisco to Tulsa	\$2.05	55¢

Add 10% Federal Excise Tax

BELL TELEPHONE SYSTEM
Call by Number. It's Twice as Fast.



HERE'S A CONTEST YOU CAN WIN

OUR ROSTER of national heroes now includes a new classification:

The successful quiz show contestant.

For these people we reserve an accolade which—many complain—we deny to more practical types of intellectual achievement.

Perhaps the difference is that quiz contestants do their thinking in public and for known stakes. With them we suffer vicariously the tortures of mental concentration. Having suffered, we object that the Internal Revenue Service shares so generously in their earnings. We concede that our own brains could never hold such oddments of diverse information subject to instant recall.

If we think this means that we can never be quiz contestants, we resign too quickly.

The world's biggest sponsor has scheduled a national quiz show and we are all contestants.

Come November, in the isolation of the voting booth, every citizen will face the duty of answering questions about the future.

Fortunately, the citizen still has time to prepare for this challenge. He can inform himself which proposed policies will help the upward march of the economy, which ones are rushed together in the name of crisis or emergency. He can study the records of the people who have supported these programs or the backgrounds of those who propose to support them.

He can, if he really works at it, make his job as a

voter easier by joining with other men of integrity, vision, intelligence and ability in drawing up sound policies, making their soundness known, and supporting men who believe in them and will work for their adoption.

None of this is easy. It takes time, energy and is often rewarded with abuse.

But it is not too hard or time-consuming for those who are interested in having government intrude more deeply into the economic affairs of the country or in having decisions that control business and industry transferred into the hands of people on the federal payroll.

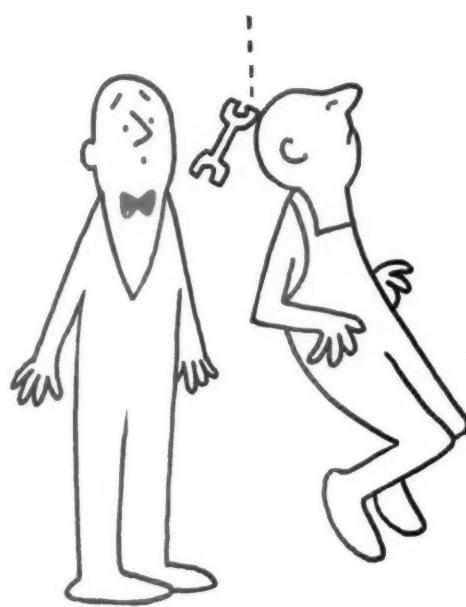
These people know that democracy doesn't work by itself; that those who most interest themselves in politics will be of most interest to politicians.

They will go to the polls, and send their friends to the polls, knowing the answers that are right for them. In places where their power is greatest, it is conceivable that for them there will be no wrong answer.

But that is not inevitable.

If businessmen and others will make the small sacrifices the job requires, the citizen will leave the voting booth next November with a winning so great that no other quiz show anywhere will ever match them.

The prize is sound legislation, solvency of the government, survival of the country and vitality of the private enterprise system.



1.

J. B. was a puzzled man—and had a right to be.
His firm had loads of workmen's comp and liability.
And yet his rate of accidents climbed up—it fairly soared—
Insurance costs went far beyond what he could well afford.



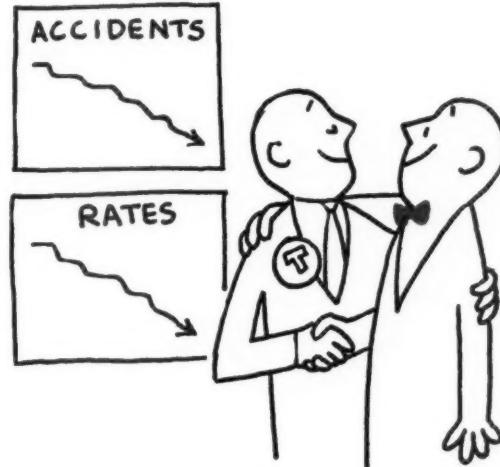
2.

So J. B. called a Travelers man, who said, "Your wisest course
Is calling up *our* firm—we stop your trouble at its source.
Our Travelers safety engineers will help eliminate
Unsafe machines and methods to improve your safety rate."



3.

"Our handy claim locations—all two-hundred-fifty-one—
Assure you speedy service; we can get there on the run."
So J. B. took The Travelers plan, his buy was most astute;
Now all his men are safer and his rates are low to boot.



4.

If you'd like *your* insurance to start working right away
Just call your friendly Travelers man—why put it off a day?
He'll build a business program that will fit you to a "T"—
He'll help you make that safer plant an actuality.

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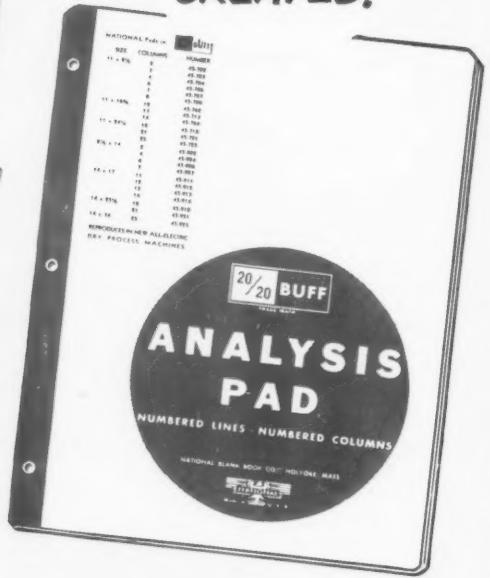
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Company..... *Position*.....

Street.....

City..... *Zone*..... *State*.....



